

FINANCIAL TIMES



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A slicker city

Barcelona teaches London a lesson



FT Guide

What really goes on at G7 summits?



Media futures

Educate or suffer says De Benedetti



Telecoms

Rumblings of new stock avalanche

first round of

The French political left had its bold on the country's town halls significantly weakened yester-day, according to provisional results from the first round of voting in municipal elections. The socialist, communist and other leftwing parties scored 43.4 per cent of the vote, sharply up from from the 38.5 per cent scored in last month's presidential election, but down from 47.8 per cent of support in the previous municipal elections in 1989. The country's rightwing parties dropped to 43.3 per cent compared with 44.6 per cent support six years ago.

Hopes fade for US-Japan trade peace: Trade officials from the US and Japan, meeting today to discuss the US threat to impose punitive tariffs on Japanese luxury car imports, appear to have little hope of a settlement. Page 6

Heath raises \$50m for new group: Christopher Heath, founder of the Asian equities business which brought large profits to Barings bank in the 1980s and disaster earlier this year, has raised \$50m to set up an investment group focusing on Latin America and Asia. Page 19

London Stock Exchange lags behind rivals: The London Stock Exchange, the world's third-largest stock market, is less efficient than the stock markets of Brazil, Thailand, Mexico and Turkey, a survey by leading consultants on share settlement

Growth in Latin America could reach 6%: Latin American growth could accelerate to more than 6 per cent a year by 2000 if a set of fairly plansible conditions are met, a World Bank report says.

EU rice import rules likely to anger US: The European Union set its rules for rice imports after months of pressure from European rice millers, but the move is expected to open a trade dispute with Washington and lead to action at the World Trade Organisation. Page 6

Russia launches Chechen offensive: Russian troops launched a fresh offensive over the weekend against the mountain beadquarters of Chechen rebels, in a move which Russian officials hope will mark the beginning of the end of the six month war in Chechnya. Page 3

German fiberals elect Gerhardt: Germany's liberal Free Democrat party elected Wolfgang Gerhardt, 51, as its new leader in an effort to stem a string of electoral defeats. The FDP faces elections in Berlin in October. Page 2

EU tries to bridge aid rift: EU loreign ministers will today seek to settle a north-south dispute which threatens to block agreement on a comnean, eastern Europe and South Africa. Page 2

Profits soar at at VA Stahl: Austrian steel group VA Stahl reported an eight-fold surge in operating profit in the first quarter to Sch853m (\$87m), brightening prospects for the group's privatisation planned for the autumn. Page 21

Managers weak on figures: Many senior British managers appear to have no idea what base rates are, how much their companies pay for accountants or secretaries, or what telephone calls cost, an NOP survey shows. Page 8

Blair backed on minimum pay: Tony Blair, leader of Britain's opposition Labour party, won support for a new strategy on minimum pay.



Itlait Punt

England beat Australia with a drop goal

Rob Andrew, the 32-year-old Wasps

outside half, guided England to a 25-22 victory over defending champions Australia in yesterday's quarter-final of the rugby world cup in Durban. Andrew clinched the memorable win with an injurytime drop goal, scored 20 of England's points, and then gave the credit to his team. New Zea-

land beat Scotland 48-30 in the other quarter-final in

Muster wins French Open: Thomas Muster became the first Austrian to win a Grand Slam tennis tournament when he defeated Michael Chang of the US 7-5, 6-2, 6-4 to take the French Open.

European Monetary System: The gap between strongest and weakest currencies in the EMS grid widened slightly last week as the D-Mark gained strength on a general re-assessment of interest rate prospects in leading industrial countries. The only change in the order was the Irish punt slipping below the French franc to the bottom of the grid. Currencies, Page 27

B.Franc D-Mark

··· @ 0 1% 2% 3% 4% 5% 6% 7% The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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MONDAY JUNE 12 1995

Left weakened in | Board accepts raised offer of \$64 a share Executives to remain with company

French local polls IBM to take over Lotus for \$3.5bn

By Louise Kehoe in San Francisco

International Business Machines yesterday won Lotus Development's agreement to a \$3.5bn takeover, the largest ever computer software merger. IBM will pay \$64 a share in

cash for Lotus, raising its terms from the \$60 bostile bid it launched last week.
Mr Lou Gerstner, IBM chairman and chief executive, said: "Lotus will be a very critical part

of IBM and of IBM's growth strat-

egy". The personal computer software company is the leading supplier of "groupware", software that enables teams of people to work together via personal computer networks. Lotus also sells a range of PC

applications programs including its flagship Lotus 1-2-3 spreadsheet program, word processing programs and others. Mr Jim Manzi, chairman and chief executive of Lotus, will stay on at the company as chief executive and will also become a

He will report directly to Mr Gerstner. Other Lotus executives have also agreed to stay on with the company, Mr Manzi said. "We are excited about being

able to work with IBM and bringing the incredible resources of IBM - its marketing, selling financial resource - to bear on Lotus' business," Mr Manzi said. Mr Gerstner said yesterday be had begun negotiations with Lotus last Tuesday and that the companies quickly determined they would be able to reach

The Lotus board met on Saturday and IBM's board met yesterday to approve the deal, the companies said.

The merger has been assigned to the Federal Trade Commission for antitrust approval. "We do not anticipate any antitrust prob-lems with the deal." Mr Gerstner

"We are really delighted that we have been able to reach this agreement so rapidly. What it means is that we can begin moving ahead very rapidly to bring our shared vision of team computing and its many, many benefits to reality across our cus-Lotus had 1994 sales of \$971m and recorded a loss of \$20.9m or said.

44 cents a share. The company bad previously announced plans to restructure its operations, and said yesterday it will move ahead with these cutbacks following completion of

tbe merger. IBM said it would take an unspecified charge against earnings in the quarter when the transaction is completed. This

is not expected to be in the current quarter, which ends in three weeks. Mr Gerstner

Mr Manzi said: "In the process of the endless rounds of discussions over the past three or four days we bave taken care of our employees, shareholders and most importantly our custom-

New lease of life, Page 10; Lex, Page 18; Microsoft may have met

Chirac wants to broaden EU co-operation with Britain

By David Buchan in Paris

President Jacques Chirac bas signalled his desire to broaden co-operation with Britain in the European Union, while also taking the edge off Paris's differences with London over the planned single European cur-

After two bours of talks with Mr John Major, UK prime minis-ter, in Paris on Saturday. France's new Gaullist president told a joint press conference at the Elysée palace: "I know and understand the British analysis and view of the single currency." of fresh air" to discuss the implications of a partial future monetary union in a practical way. Mr Chirac also signalled that

he would set more store on relations with the UK than his predecessor, Mr François Mitterrand. While the Franco-German axis was "essential for Europe to move forward", be said, it was necessary, but not sufficient."

"Wa will not huild Europe without Britain," he said, and therefore it was essential "to understand the specific problems In the context of next year's

EU intergovernmental conference. Mr Chirac expressed the belief that "France can play a role to find the necessary energy and synergy between all [EU] states, and especially between France, Germany and Britain". He underlined France's "common approach" with Britain to institutional reform, especially

reinforcing the Council of Ministers and associating national parliaments more with EC decision making. Asked whether this com-mon approach could extend to the issue of more majority voting in the EU - which the UK government opposes - Mr Chirac said: "I think you will find us in agreement." On all these issues, however, Germany takes a more federalist line

On the single currency, Mr Chirac said the UK and France "are at least agreed that the conse quences of a single currency between five, six or seven countries [of the EU] for the economic and therefore for those countries that will not share the single currency, have not been sufficiently studied so far",

Mr Chirac's concerns appear to focus on exchange rate fluctuations between countries sharing a future common currency and countries, such as Britain, likely to be outside a monetary union. In hanging on to its parity with the D-Mark, France already feels particularly vulnerable in being surrounded on three sides by the UK, Spain and Italy with depreciating currencies and increasing export competitiveness.

After Mr Chirac's Elysée dinner for all 15 EU government heads, Mr Major reiterated the UK's commitment to following the Maastricht criteria "as sensible in any event, regardless of whether it were eventually to opt into a single currency. This has partly reassured the French that sterling may prove relatively sta-



Mr Chirac also said the EU summit in Cannes later this month - over which be will preside - would not discuss a name for the planned single currency. dashing the publicly expressed bopes of Mr Jacques Santer, the Commission president, for an early decision.

Mr Major hinted at an early UK concession to France over EU development aid, an issue which Mr Chirac described as "our only difficulty" in bilateral relations In renewing money for the Lome treaty, the French presidency is pressing for the 15-member Union to pledge at least as much money

yesterday after voting there in municipal elections Peters AP

ble and pose less of a threat to for African, Caribbean and French trade than weaker cur-rencies to the south. Pacific states as it did when it had only 12 members. Britain has been resisting this. But Mr Major said: "I bope and expect we will reach an agreement before

EU tries to bridge rift over foreign aid pay-outs, Page 2; Editorial Comment, Page 17

Thatcher attacks **UK** government on single currency

Baroness Thatcher, Britain's former prime minister, will today launch a broadside attack on the ruling Conservative party's European Union policy, putting herself in the vanguard of Tories wanting a firm commitment that Britain will never join a single

European currency. In a BBC television interview to be broadcast tonight Lady Thatcher says: "I would say no single currency. This demeans Britain because we cease to have control either over the central bank or over our own currency." Her remarks will increase pressure on Mr John Major, the prime minister, to commit the Tories before the next general election against sterling ever joining a single currency.

The Eurosceptic cause received a separate boost over the week-end when Mr Michael Portillo, the employment secretary, said he did not want the UK to be in either the "slow lane" or the "fast lane" of the EU if the ultimate destination was a federal

Lady Thatcher says in tonight's programme that the European Commission is busy trying to undermine" British sov-ereignty. She says: "It always seemed to me that Mr Kinnock [Neil Kinnock, former Labour leader, now an EU commissioner!

. . . has more power as a com-

of the opposition, or if we're not careful than anyone would ever have as prime minister". She believes the the UK should

remain part of a European free trade area but opt ont of shared decision-making in other

While Lady Thatcher says she opposes a challenge this autumn to Mr Major's leadership of the Tory party, she is scathing in her criticism of the direction of government under him.

On EU policy, the breakdown of relations with the US, defence cutbacks, law and order and "parliamentary traditions most of all", she says: "I didn't think we'd ever let those go to the extent that we are."

She also attacks Mr Major for signing the Maastricht treaty on closer co-operation between EU states, which set in train moves towards monetary union. " would never have signed the Maastricht treaty", she says.

Lady Thatcher describes the objectives of the treaty - which she identifies as monetary union. a common defence policy and a common foreign policy - as "not right for the world . . . not right for Britain".

She also admits that opponents of the Single European Act, the blueprint of the single European market which she steered through parliament a decade ago. had right on their side.

Christopher ends Mideast tour with high peace hopes

By Julian Ozanne in Jerusalem

Mr Warren Christopher, US secretary of state, ended his Middle East tour yesterday saying be had more bope for a comprehen-sive end to the Arab-Israeli con-flict than at any other time during his term in office.

Mr Christopher, who visited Israel, Egypt, Jordan and Pales-tinian-ruled Jaricho, said his optimism was based on his firm belief that Israel and Syria were about to enter a "new and intensive phase" of negotiations and that Israel and the Palestinians were determined to meet a July 1 target date for extending Palestinian self-rule.

reinforced my feeling that there is a tremendous opportunity to move now toward a goal of a comprehensive peace, perhaps a better opportunity than at any other time during the 2% years that I have been in office," Mr Christopher said in Amman before departing to Washington.

Guide to the Week This Week/People

After talks in Damascus with Mr Hafez Assad, the Syrian president, Mr Christopher announced that the Israeli and Syrian chiefs of staff would meet in Washington later this month to discuss the security arrangements for an Israeli troop withdrawal from the occupied Golan Heights in return for full peace between the two

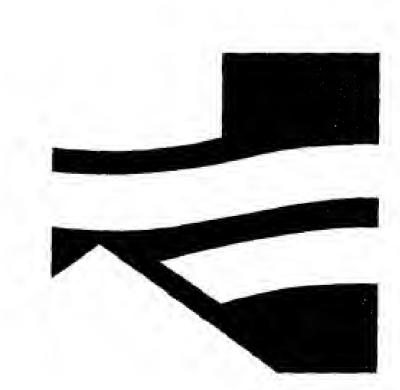
Mr Christopher also said that his "very productive" talks with Mr Yitzbak Rabin, Israeli prime minister, and with Mr Assad had produced a detailed schedule for negotiations in July. "This detailed and ambitious work plan confirms the determination of the parties to seek an early peace."

Mr Christopher, signalling Washington's eagerness to broker a peace agreement in the coming months, also said that President Bill Clinton would be prepared to travel to the Middle East to seal an Israeli-Syrian deal. In another apparent sign of

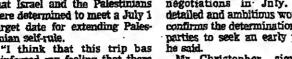
the time pressures for reaching a peace agreement this year countries in November next year. Israel yesterday shared Mr Christopher's optimistic assessment of prospects for peace with

Syria. Mr Rabin said he hoped the talks between the chiefs of staff in Washington would reach a breakthrough and said his government wanted a treaty which would mean "real peace, peace in the sense that every man in the wants to get up and travel to Syria...or open commercial or cultural ties, this will be possi-

As a sign of Israel's belief that peace was drawing near, officials said yesterday that Lieutenant General Amnon Shahak, Israeli chief of staff, would present the US with a detailed shopping list of military equipment needed to make a withdrawal from the Golan Heights safe. Officials said progress, Mr Christopher also the list could cost up to \$2.5bn.



Which company attracts fewer customer complaints than any similar one in England and Wales?



Lucder Page .

Business Tarvel ...

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Aerospace; Turkey

© THE FINANCIAL TIMES LIMITED 1995 No 32,699 Week No 24 LONDON - PARIS - FRANKFORT - STOCKHOLM - HEW YORK - LOS ANGELES - TOKYO

EU foreign ministers will today seek to hridge a north-south rift which threatens to block agreement on a complex foreign aid package involving the Mediterranean, eastern Europe and South Africa.

France, Italy and Spain are leading the push for more money for the unstable North African region and former colonial outposts in Africa, the Caribbean and Pacific. Britain heid South Africa.

Unless ministers make progress today, the dispute may have to be resolved at the EU summit in Cannes on Juna 24-25. However, France, which holds the EU presidency, views Cannes as a showpiece for newly-elected President Chirac and Is keen to avoid a

demeaning battle over money.

The struggle over spending priorities in the foreign ald hudget began in earnest last year. Germany and Germany are calling for ade-quate funding for former commu-agreed with France that the com-

nist central Europe and post-apart- mitment to future EU membership for the eastern Europeans needed to be balanced by greater attention to the economies of the Middle East and North Africa.

The European Commission put forward a five-year funding plan which proposed about Ecu6.7bn (£5.52hn) for eastern Europe from 1995-99, and Ecu5.16n for the Mediterranean. But this plan has been roundly criticised for locking in too much money, leaving little for contingencies such as reconstruction in former Yugoslavia or humanitarian

disasters like Rwanda. France has therefore put forward a plan to set a minimum level of Ecul.24bn on eastern Europe, and about Ecu700m for the Mediterra-

nean. Each side would then bid for "top-ups" in the following years out of a much larger EU contingency

Spain, however, is nervous that failure to put forward a multi-year budget for the south could jeopardise the Mediterranean summit in Barcelona later this year. Madrid has strengthened its case by dropfor the European Commission to negotiate a new trade and aid agreement with South Africa.

The present mandate offers a generous Ecu125m plus five tranches of Ecu100m over five years. Britain and Germany, however, would have preferred the EU to offer more far-reaching market access, particu-larly in agricultural products.

The South Africa matter is close to resolution, but it is complicated hy the continuing impasse over the

ping hints that it might seek to size of the European Development rac described the issue as "our only hlock an agreement on a mandate Fund, the EU's main aid pro- difficulty" in bilateral relations, but gramme for African, Carlbbean, and Pacific countries.

France is seeking Ecul3.3bn over five years, an increase reflecting inflation and contributions from the three new EU members: Austria, Finland and Sweden. But only Ecui2bn has been pledged. Britain and Germany are the chief holdouts, though Mr John Major, UK prime minister, hinted at an early UK concession in talks with Mr Chirac on Saturday morning. Mr Chi-

Mr Major said: "I hope and expect we will reach an agreement before Cannes."

The arguments over the EU budget foreshadow a big battle likely to commence in 1997-8 over the next EU financial outlook, once the present seven-year Delors II package runs out. Net contributors such as Britain, Germany, the Netherlands and Sweden are already taking a tough line. "Everyone agrees that is going to be hell," said one diplomat.

German liberals elect Gerhardt to lead FDP

By Judy Dempsey in Mainz

Germany's liberal Free Democrat party (FDP) elected Mr Wolfgang Gerhardt as its new leader at the weekend in an effort to stem a string of electoral defeats over the past 18

Mr Gerhardt, 51, defeated Mr Jürgen Möllemann, the former economics minister, after winning 57 per cent of the vote from the 655 dele-

But Mr Gerhardt, FDP party leader in Hesse, one of the faw remaining states in which the liberals are represented in the parliament, has less than five months to prove himself and reverse the party's fortunes. The FDP faces elections in Berlin in October, and next March in the states of Schleswig-Holstein, Rheinland-Palatinate and

in these states, the chances of a split not be tough enough to force the

between the left wing of the party. FDP faction to stand up to Kohl." led hy Ms Sabine Leutheusser-Schnarrenberger, the justice minister, and the conservative national liberals, is likely to increase. A split would undermine Chancellor Helmut Kohl's governing coalition in which the FDP is the junior partner. The coalition enjoys only a 10-seat

parliamentary majority.

Delegates hope Mr Gerhardt will sharpen the FDP's identity, pushing the parliamentary party to stand up to Mr Kohl on policy issues. But in spite of giving him their vote, many remain sceptical that he can pull the party out of the doldrums and erode the growing support for the environmentalist Greens, which in recent years have taken over many of the FDP's policies, including the defence of civil rights.

"Gerhardt is of the old school," said Ms Stephanie Luscher, 25, a del-If the party fails to get re-elected egate from Lower Saxony. "He will

Mr Gerhardt, a long-serving member Because he is not simultaneously leader and minister, unlike his pre-decessor, Mr Klaus Kinkel, the foreign minister, he will have a freer hand to shape FDP policy. But his ability to define more clearly the party - whose platform was originally achored on low taxation, less state interference, more de-regulation, and defence of individual rights will remain weakened because the 47-strong FDP parliamentary fac-

tion, led by Mr Otto Solms, is committed to shoring up Mr Kohl's coali-Hans-Dietrich Genscher, the former foreign minister, and Mr Otto Lamhsdorff, both honorary (and influential) members of the FDP's executive board, continue to interfere by diluting the party's policies in the parliament in order to keep it



Gerhardt: new FDP leader faces uphill task to return party to winning ways

Eurostart quandary for Eurostar

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By Andrew Jack in Paris

The small businessman who has won a ruling to force the French national railway company to stop using the name Eurostar for its Channel Tunnel service yesterday indicated that he had no intention of giving up his legal fight in the face of a possible appeal.

Mr Antoine Leprince-Ringuet, director of Eurostart, a Paris-based delivery and cou-rier company with 35 staff and

an annual turnover of FFr7m, (£390,000) said that the costs of continuing a battle in the courts did not concern him.

His comments came after a surprise ruling from a civil court in Paris on Friday that SNCF, the French state-owned national railway operator, must pay his business FFr1 in symbolic damages and cease using the name Eurostar within six months.

SNCF said it would study the written judgment from Ms

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Lydie Dissler, the magistrate. before deciding on an appeal. The French company was created in 1986, and registered

its name Eurostart in 1989. SNCF and the Belgian and British railway companies which jointly operate services through the tunnel have spent 25m promoting the name "Eurostar" since 1993. Mr Leprince-Ringuet said he

was not aware of any approach by SNCF to his company before it launched its marque.

and he decided to launch legal action early last year after seeing mentions of the name Eurostar in the press. "I thought it was a case of imitation that had potential to create confusion." He said the legal action was an entirely "franco-français" affair because it hinged on the fact in French the two names sound identical. Eurostar operators in London said because it used the

tunnel, the French ruling could

also affect its use of the name.

German tax raids bring fear and embarrassment

By Andrew Fisher in Frankfurt

7 hen taxi drivers and hotel porters give advice about where to squirrel money away from the eyes of the taxman, the government has a problem. In Germany, high tax rates discourage citizens from declaring all their assets, so many of them open accounts abroad.

That in itself is not illegal. But those subject to tax must many are reluctant to do this, revenue officials search the offices of banks through which Germans, and those resident in the country, channel their money. Not only are they after may have advised them on tax

Last week, it was the turn of Merrill Lynch, the hig US investment bank, to undergo this embarrassing process. Tax officials marched into the five which dispense private client advice and took documents they thought could help in their tax evasion probe.

Merrill says it has done nothing wrong. So do other banks which have had the same treatment, including Dresdner Bank in Frankfurt, Hypo Capital Management (HCM), an arm of

Bayerische Hypotheken und Wechselbank in Munich, and Norddeutsche Landesbank in Hanover. Customers of Merrill Lynch received a letter telling them the tax people had been round and warning them to expect awkward questions.

One executive whose bank was searched by tax officials said he was told by a taxi driver about the best way to take money across the border to Luxembourg without being observed. "But he now keeps his money in Switzerland because he thinks Luxembourg is not safe enough any more." A colleague of the banker heard the night porter at his hotel also talking knowledgably about where to send money ahroad away from prying eyes.

"It's so widespread, I'm sur-prised," the banker sald. "There's a huge grey area." Tax experts reckon more than DM300hn (£134hn) has been salted away in tax refuges, mostly in Luxembourg but also in Switzerland, Austria and Liechtenstein. Germany has pushed for European tax harmonisation to plug the gaping holes through which it has lost an estimated DM20bn in tax

With the finance ministry

not its brainchild - regional tax offices have adopted a scattergun approach. When they receive a tip-off, of which there are said to he more than 200,000 a year from envious or concerned citizens, they act.

"You can invest where you want to under German law, sald a Frankfurt tax official. "But you have to say what money you have. It's obviously a sensitive point that so many people invest money in other countries where yields are not that high compared with Germany." in other words, people suspected of putting money where the taxman's arm does not reach can expect to be investigated.

Since the government does not want to provoke an outcry by making banks report all tax-eligible transactions, it relies on honesty. But at a time when German tax rates have shot up to help pay for unification, honesty cannot be taken for granted. So officials pay intimidating visits to banks.

No action has been taken against any banks hut many nervous investors must wonder if the taxman will tap them on the shoulder soon. Munich's tax office reported around 100 spontaneous tax declarations watching from the sidelines - after the raid - coming clean is and insisting the campaign is ohviously good for the nerves. after the raid - coming clean is

Slovenia debt deal excludes suspect banks

By Gavin Gray in Zagreb " and Stephen Fidler

A proposed deht agreement between leading international hanks and Slovenia, the first bank debt settlement for a republic of former Yugoslavia, will explicitly exclude a number of financial institutions suspected of working for

The list of the excluded institutions, said by bankers to number eight, will be sent to Yugoslav bank creditors next week and thay will not be allowed to participate in the agreement. The list includes s French, a British and a Cypriot

The Slovene government accuses the Serbs of keeping all the former Yugoslavia's foreign exchange and gold reserves and believes some of these have been used to buy

Under the proposed settle-ment, agreed on Friday, Slo-venia will take on 18 per cent of Yugoslavia's total \$4.65bn (£2.96bn) debt to western commercial banks. This will be swapped into bonds maturing in 2006 and carrying an interest rate of 13/16 percentage

points over Libor. The agreement, which must be approved by two-thirds of the western creditors, is expected to be signed in September. It follows two years of negotiations between Slovenia and a committee of creditors led by Chemical Bank of the

When negotiations began. western creditors asked Slovenia to take \$1.2bn, or 28 per cent of the total deht, while Slovenian negotiators offered to take \$500m.

The compromise means Slovenia, which has hard currency reserves of more than \$3bn, will have a gross hability of \$837.9m. However its net liahility will be only \$710m because it has already bought some of the debt in the second-

ary market. At least some of the institutions that Slovenia wants excluded from the deal are said

The Slovenes drew np the list and it has been reviewed hy an arbitrator. There is a right of appeal

Also excluded from participating in the accord are banks and other entities from Serbia and Montenegro as defined by the Office of Foreign Asset Control in the US, which is operating an embargo against the Serbs.

Bankers were interpreting the agreement positively over the weekend, but were unsure whether the excluded hanks would resort to law over the

Slovenia has secured a debt rescheduling with the Paris Club of creditor governments. Bankers said the deal could lead to a similar accord with Croatia, which is also talking with commercial banks.

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FRANCE:
Publishing Director: D. Good, 168 Rue de
Ryodi, F-75044 Paris Cedez 01. Telephane.
[01] 4297 0621, Fax (01) 4297 0629.
Printer: S.A. Nord Eclair, 15721 Rue de
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Richard Lambort. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carassy 468
618 6088. Printer: AB Kwillstiddinger
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EUROPEAN PRESS REVIEW

Italians suffer from referendum grapeshot

By Andrew Hill in Milan

the ballot papers for yester-day's ftalian referendums when, according to Il Giornale. the Milan daily, preparations were already under way for another wave of popular votes in 1997 or 1998.

The newspaper reported yes-terday that Italy's Radical party was collecting signatures for a further 18 referendums on issues such as hunting rights. the state electricity monopoly and proposals to abolish the powerful Italian order of professional journalists.

It would be ironic if a referendum were to attack the rights and privileges of Italian journalists. Although referendums mean mainly nuisance and confusion for most Italian citizens, for journalists they are a boon.

As Mr Vittorio Feltri, editor of Il Giornale, put it in an editorial: "This has been really a great week, rich with thrilling events." Despite declining circulation and rising newsprint costs, newspapers devoted screeds to the referendum and its spin-off controversies.

Mr Feltri himself has been at the centre of attention, if only because his newspaper belongs Mr Paolo Berlusconi,

hrother of Silvio, former prime minister and media magnate. Not surprisingly, Il Giornale has backed Mr Berlusconi and his allies on the right. Its headline yesterday was in line with most other newspapers - "Day of judgment for Berlusconi" while alongside the editor urged Italians to vote No to a

cut in his TV channels. La Repubblica, staunch oppo nent of Mr Berlusconi and II Giornale, was even hlunter about the choice. It led its front page with a cartoon of Mr Berlusconi on TV pointing a gun to his head, while a viewer's hand wavered between the Si or No buttons on the TV ote-control unit.

Yesterday's vote may help resolve problems such as the future of commercial television, union rights and shop opening hours, but poll-weary Italians will be pleased to hear that at least two questions raised in last week's newspapers are too complex to be solved by a simple Si or No.

Is Antonio Di Pietro, the former anti-corruption magistrate, an idol with feet of clay, or the victim of a vicious smear campaign? More importantly, is Roberto Baggio - star player with Italy's top soccer club Juventus, and tragic hero of last year's defeated World Cup team - going to be transferred to Parma, AC Milan or

from the team of anti-corruption magistrates last year, was rarely off the front pages last week, forced to defend himself against charges that he abused his public office by accepting loans from a Milan business man accused of insurance fraud. Thursday's Corriere della Sera urged those who wished to judge Mr Di Pietro to rely, as he used to, "only on the facts". The problem is that in spite of the space devoted to "Il Caso Di Pietro", Italian

Mr Di Pietro, who resigned

newapapers have not yet untangled the facts from the spiral of accusations and counter-accusations. Divining the future of Mr Baggio - known as "Codino", or Pigtail, for his distinctive

hairstyle - is an even more complex task, judging from La Gazzetta dello Sport, Italy's top-selling newspaper. On Saturday, the paper kindly summed up the possible trade-offs between players for confused readers. There are

three hypotheses: Baggio goes to Parma with Boksic (Asprilla goes, Lazio keeps Casiraghi); Bagglo goes to Milan (Casiraghi to Lazlo and Boksic to Parma); Baggio goes to inter which gives up Bergkamp (Casiraghi goes to Milan and Parma trades Minotti and L12bn for Boksici.

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proceedings in Sydney in an attempt to prevent the Australian federal government from blocking its ability to fly to Australia misuse of government power by Australia. Nikki Tail, Sydney

INTERNATIONAL NEWS DIGEST

Russians launch Chechnya attack

against the mountain headquarters of Checheo rebels, in a move which Russian officials hope will mark the beginning of the end of the six-month war in Chechnya. However, Mr Dzhokhar Dudayev, leader of the Chechen separatists, remained defiant. "The next step is that Russia is to burn in heli," Mr Dudayev told Reuters in a telephone interview yesterday. "We have had enough of infanticide, blood being

Earlier this week Mr Dudayev reportedly rejected proposals to launch a terrorist campaign within Russia, a policy which many military observers believe the extensive Chechen mafia network throughout Russia could be well placed to implement But Mr Dudayev's strident comments yesterday suggest that, in the face of the new Russian offensive, his position may be bardening. On Saturday, Russia flew paratroopers into Chechen held territory near the village of Shatoi. Shatoi, some 50km south of Grozny, the Chechen capital, has served as the beadquarters of the Chechen resistance since the capture by Russian forces of Vedeno, a mountain strong-hold closer to the Chrystio Freeland, Moscow

Support sought for war apology

The Japanese coalition government today begins a last minute race to obtain opposition support for a parliamentary statement of remorse for Japan's war record. Mr Tomiichi Murayama, the socialist prime minister, is eager to get the upper house of parliament's accord for Japan's first national gesture of atonement for the war in time for the Group of Seven industrialised nations' summit, beginning in Halifax, Canada, oo Thursday. However, the wartime apology has become entangled in an unrelated matter - an investigation into financial corruption - likely to compound Japan's neighbours' impression that the country remains divided over its wartime record.

While the more powerful lower house of parliament passed a painfully crafted statement of remorse late on Friday, exactly half its members stayed away, a mark of ambivalence over whether or not Japan's wartime record is a matter for apology. Upper house coalition members are to meet this morning. They are expected to call on the opposition to support the motion as it is.

William Daukins, Tokyo

Employers seek EU rule halt

The European employers' federation will today call for a moratorium on new EU-wide and national regulations as the first step towards designing a more cost-effective and investor-friendly regime for husinesses. European companies are being stifled by too many regulations which are too complex, change too frequently and set different standards, the Unice federation concludes in a draft study to be published today. Urgent action is necessary, it argues, as the problems facing small and medium-sized European companies particularly are set to increase. It calls for a halt to all new regulations so that governments at European, national and local level can take stock and develop alternative strategies. Unice's results are based on a survey of 2,100 companies, 80 per cent of which were small and medium sized enterprises, Caroline Southey, Brussels

Vesco probed as 'foreign agent'

Fugitive US financier Mr Robert Vesco, wanted in the US on embezzlement and cocaine smuggling charges, had been taken into custody in Havana and was being investigated as a suspected foreign agent. Cuba's foreign ministry said at the weekend. The US state department said on Friday it had been informed by Cuba of the arrest of Mr Vesco, who has been resident on the communist-ruled Caribbean island since 1982. ed off speculation that Havans r Vesco to the US as a goodwill gesture to try to win a relaxation by Washington of a 33-year-old US trade embargo. The two countries do not have full diplomatic relations. Cuba's foreign ministry said Mr Vesco had been arrested "on suspicion of being a provocateur and agent of special foreign services". Charges against Mr Vesco in the US include the alleged embezzlement of \$224m (£143m) from an international mutual fund in the early 1970s and a federal indictment for cocaine trafficking.

Rift over Argentina patents law The authority of Mr Domingo



Cavallo, Argentma's embattled economy minister (pictured left), was further undermined at the weekend with the passage into law of patents legislation that Mr Cavallo says will damage the country's international reputation. The legislation on protection of intellectual property rights, which came into effect on Saturday, will be seen as a victory for Congress, which approved the bill last month. President Carlos Menem, who agreed that the bill provided inadequate protection, failed to act against it by the

weekend deadline, in spite of earlier suggestions that he might declare the law unconstitutional. Mr Cavallo railed against Congress, which he said had caved in to the big money interests represented by the domestic pharmaceutical lobby. Legislation, as it now stands, will not cover pharmaceutical patents until 2003 because of an eight-year phase-in pariod.

David Pilling, Buenos Aires period.

Emu 'endless litigation' fear

Bankers could be faced with "endless litigation" as a result of the move to European monetary union, according to a report published today. Uncertainty over the future status and interest rate payable on financial contracts denominated in existing European currencies could give rise to the legal action, says the report published by the London-based Centre for the Study of Financial Innovation. Its author, Mr Malcolm Levitt, says it "behoves the financial system to take a long . hard look at what Emn means now - before irrevocable political and economic decisions have been taken".

Mr Levitt says litigation could occur for two main reasons. First, borrowers who have raised money in one currency at a high interest rate may argue that since their liabilities are now denominated in the new single currency they should only pay interest at the new lower interest rate. Second, lenders in relatively low-interest rate currencies may start to demand interest at the higher Ecu rate. Economic and monetary union stage III: The issues for banks. CSFI, 18 Curzon Street, London W1Y 7AD. Tel: 0171-493 0178 Richard Lapper

Cathay takes action over flights

after June 30. The legal move comes in the wake of a rumbling aviation row between the two countries about so-called "fifth freedom" traffic, carried by an airline between destinations outside its home country. After negotiations failed to resolve the dispute, the Hong Kong government said in April that it would restrict Qantas' fifth freedom rights to 50 per cent of traffic on its Hong Kong Singapore and Hong Kong Bangkok services from July 1. In retaliation, the Australian government said it would only approve services by Cathay to Australia until June 30. In its application to the Federal Court, Cathay claimed that Australia's transport department was not entitled to limit its operations after end-lune, and that this was a

HK law under Chinese law

Simon Holberton on the interface between Basic and common law

ong Kong is a lot wiser, if no happier, about the way things will be after China reclaims the colony in 1997 following Friday's Sino-British deal oo Hong Kong's legal system.

There is o growing realisation that the legal system after July 1, 1997 will be quite different from that oow in opera-tion. As Mr Martin Lee, chairof the colony's Democratic party, pointed out the common law in Hong Kong after 1997 will a "common law with Chinese characteristics".

When Mr Chris Patten, gov-ernor, presented the Sino-British agreement on Hong Kong's court of final appeal to the Leg-islative Council (LegCo) on Fri-day, he chose his words carefully. Of the agreement, he said: "It offers the prospect of a court that will, subject to the Basic Law, have precisely the same function and jurisdiction as the Judicial Committee of the Privy Council."

The key phrase is "subject to the Basic Law". The Basic Law a law passed by China's National People's Congress, or parliament, in April 1990 – empowera the Hong Kong Special Administrative Region, as the colony will be known after 1997, to conduct its own affairs within certain guide-

lines and limits The limitation placed on

Hong Kong courts is the prohibition from hearing cases involving "acts of state". In common law, acts of state typically relate to the making of treaties with foreign countries, declarations of war, and the seizure of land or goods in

right of conquest. The Basic Law says the courts of Hong Koog "shall have no jurisdiction over acts of state such as defence and foreign affairs".

The use of the phrase "auch as" alarms lawyers because it implies there are areas of state activity other than the tradi-tional ones of defence and foreign affairs which may be embraced by the term. If that were not enough, Beijing has also taken away from Hong Kong's courts the power to determine what acts of state

In common law jurisdictions.

the courts decide these on the basis of case law. But through the powers the deal gives Hong Kong's chief executive, as the post-colonial governor will be known, it will be his brief to direct the courts as to what constitute acts of state. A further layer of protection is afforded to Beijing by the requirement that the chief executive consult Beijing before issuing his direction to the courts.

Mr Jeremy Matthews, attor-

ney general, was blunt when he pointed out the "inescapable facts" facing Hong Kong after 1997. These were that the Basic Law becomes law on July 1, 1997 and that it contains a definition of "acts of

"That is reality," he said. "It is not something that we have traded away. That is oot something that we've given away. That is an inescapable fact that stares us in the face."

This underlines the fact that the Basic Law is a Chinese law, with only indirect involvement from Britain.

Britain's biggest failure in the talks was its lnability to convince China to allow the court to be set up before 1997. In the draft of bill for the court, it was left to the governor to rule on "acts of state". Had Britaio coovinced China of the need to set up the court early then Mr Patten could have belped shape the interpretation of acts of

Probably for this very reason China did not agree to the court being set up early. From Beijing's point of view, it did not design a way of keeping Hong Kong's court system on a tight leash only to let Mr Patten - not their favourite goveroor - introduce some slack into the system just before

the handover of sovereignty Hong Kong will be a region of China subordinate to the central government; so it follows that its courts could not have the powers of a Privy Council to rule on sovereign matters. This limitation will make for some interesting law in the first year or so of Hong Kong under Chinese rule. As Mr Matthews noted: "Pretty early on, the question that the courts will have to decide is

the interface between the common law and the Basic Law." That particular fault line could also prodoce eruptions of seismic proportions. Senior British officials are convinced that China is in the process of securing its hold over Hong Koog. During the late stages of the transition "I think their fundamental motivation is to get cootrol over various institutions in Hong Koog," said

In achieving that aim, however, British officials believe the Beiting government might emper its actions in the light of experience. According to another British official, Beijing's attitude towards "acts of state" will depend on the political situation in Hong Kong at the time, the degree of confidence Beijing has in the chief executive, and the nature of the cases coming before the

Stronger yuan worries China

By Tony Walker in Beljing

The strong appreciation of the Chinese yuan risks becoming a 'double-edged sword", according to the official China Daily's Business Weekly newspaper, exposing a fractious debate within government and banking circles.

The paper yesterday quoted an unnamed government economist as calling for a relaxation on restrictions on imports as the best means of preventing a further rise in the yuan's value. "If imports are oot to further increase, an even stronger yuan may well stifle export growth," the economist said.

Cbina's credit squeeze, imposed in mid-1993 to calm an overheating ecocomy, has slowed significantly demand for imports. "The quick export growth will be a double-edged sword if it fails to be handled

properly", China Daily said. The newspaper noted comments by another senior economist that "China will not seek a one-way trade surplus: we advocate a virtual balance between exports and imports." China's trade surplus reached \$8.8bn (£5.6bn) at the end of April, reflecting a 53 per surge in exports compared with the same period last year. Import

restricted to 14.5 per cent China's foreign exchange reserves have also riseo

sharply - from \$51.6bn at the end of 1994 to about \$60bn now. Reserves were \$30.4bn in 1993 The yuan, which was trading at about Yn8.30 to the dollar oo Friday, has appreciated hy about 5 per cent in the past year in spite of inflation running at more than 20 per cent. The yuan is not a convertible curreocy internationally, but is

traded for US and Hong Kong

dollars and yen oo a local foreign exchange market. Among concerns is that the yuan's appreciation, together with bigh rates of interest available on local currency deposits, is proving a magnet for speculative activity, including funds repatriated by Chinese corporations. These organisations had been bolding big foreign exchange deposits

Officials of the People's Bank of China, the central bank, have complained about such inflows putting a strain on mooetary targets. They have takeo steps to curb flows of so-called "hot money", but this is not proving easy at a time when China is the recipieot of billions of dollars of foreign direct investment.

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down on poll anniversary

Today's second anniversary of Nigeria's annulled presidential election has prompted an uncompromising response from the army regime.

Opponents have been arrested and the military presence raised in Lagos and across southern Nigeria, traditionally sympathetic to the denosed and imprisoned winner of the poll, Mr Moshood

The anniversary of the



Moshood Abiola: arrest raises

ward questions about the ruling regime of Gen Sani Abacha and the continued arrest of Mr Ablola who was imprisoned on charges of treason after proclaiming himself president last June. His trial has been postponed indefinitely with no prospect of release despite Mr Abiola's poor health. Many of his supporters are also in jail or in exile.

Most opposition groups have denied planning any militant activity to mark the vote anniversary and say the crackdown by the authorities is unwar-

The regime faces another security threat following the May 30 riot in Gen Abacha's home town of Kano where dozens were killed in clashes between the Christian minority and the mainly Hausa Mos-

The riot started with a row over a parking space between an Ibo, a southern Christian, and a Hausa, a northern Moslem. Local gangs of Moslem youths, began to attack Christians, who retaliated as fight-

ing spread. Within hours three churches were burned out. This has nothing to do with religion at all," says Mr Ibrabeem Zakhzaky a pro-Iranian Moslem preacher with a strong following in nearby Zaria. "It is

a social problem. The Christian community is particularly worried about the apparent indifference of the Kano state authorities to the recent disorders.

"We called the state gover-nor, his chief of police and state security services but they did not treat it seriously," said a spokesman for the Christian Association of Nigeria in Kano. Eventually we telephoned the office of Gen Oladipo Diya, the number two in the military regime, in the capital Abuja. They had been told by the state authorities in Kano that it was a minor scuffle and was under control."

On orders from Abuja troops were deployed, army barracks gave refuge to thousands of Christians and by evening the riot had been quelled.

'Christians here are treated second class citizens," said Father Joseph Bagohiri, a Catholic priest in Kano and a

The tension in the West African nation is compounded by the trial, which began last week, of 23 soldiers and civilians accused of plotting to topple the military government. A former military head of state, Mr Olusegun Obasanjo, and his former number two, Mr Shehu Yar'Adua, are also being held without specific charges. Their involvement in a coup ls

Privately, military officials believe they have little hard evidence against the suspects who include Col Lawan Gwadabe, formerly Gen Abacha's principal staff officer, and Col Bello Fadile, an intelligence officer who until recently was head of the army's legal service. The arrests are seen more as a sign that the regime fears

Last week Mr Adamu Ciroma, a conservative from the north with no loyalty to Mr Ahiola, told the regime that the release of Mr Abiola is a pre-condition to removing the shadow of legitimacy the unexplained annulment of the 1993 election has cast over the army's claims to power.

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BUILDING PEOPLE - BUILDING BUSINESS

Lagos cracks Clinton to put case for isolating Iran

US president hopes to win over allies at G7 summit, writes Scheherazade Daneshkhu

ton is hoping to gain trade embargo against Iran at the Group of Seven summit of the world's largest industrialised nations which meets in Halifax, Canada on Thursday.

The embargo, announced by Mr Clinton six week ago came into effect last week. On Friday Japan's foreign ministry struck a blow to Washington's policy when it said it could not easily restrict commercial activities hetwaen private companies and Iran. However Japan has frozen

the second tranche of a Y120bn (£882.35m) loan for a dam and hydroelectric power station on Iran's Karun river in sympathy with the US position. Japan agreed to provide the credit in 1993 and the first tranche of Y38bn is being disbursed. The second tranche is worth Y50bn. Mr Clinton said the embargo was in response to "Iran's continuing support for terrorism, East peace process, as well as its intensified efforts to acquire weapons of mass destruction". So far only Israel, which does not have trade or diplomatic relations with Iran, has

fully endorsed the move. Mr Clinton is expected in Halifax to try to persuade US allies to refrain from extending credit and long-term guarantees to Iran and to stop concessionary financing. He will also ask his allies to reduce or freeze their imports of oil from

Washington is particularly anxious that none of its allies should step into the empty shoes of Conoco, the oil subsidiary of DuPont, which under pressure fron the administration relinquished a \$1bn deal with Iran to invest in developing two offshore oil fields.

The deal triggered the trade embargo and Washington would not like to see compa-nies such as Total, the French including support for acts oil company which competed

T S President Bill Clin- which undermine the Middle with Conoco for the contract, or Royal Dutch/Shell, the Angle-Dutch oil company which is believed to have held talks with Iran, to co-operate with Tehran instead

The US will want to secure more support at Halifax than in Moscow last month. Russian President Boris Yeltsin refused to abandon a \$1bn sale of light water nuclear reactors to Iran, which Russia says resembles a reactor the Americans are selling to North Korea. He did, however, agree not to sell Tehran a gas centrifuge, which would produce enriched ura-

ntum. China, which has an agreement to sell Iran two nuclear reactors, has defended the deal and last month signed a con-tract to trehla its purchases of Iranian oil to \$400m (£255m) a

Despite the bravado shown by Iranian officials, the US embargo has been a blow to Tehran. It has to find new buy-



viously lifted by American oil companies while fending off the threat of other oil producing countries increasing their

Last month Mr Gholamreza Agazadeh, Iran's oil minister, not to try to take away some of Tehran's share of the world oil markets.

The embargo also triggered a crisis of confidence in Iran which led to a rapid devalua-tion of the rial, the local currency. In an effort to stem the rial's fall, Tehran has imposed strict foreign exchange controis which include a requirement on exporters to repatriate all their foreign exchange earnings, with the result that private sector trading has come to

The lack of continuity in economic policy as the country lunges from one economic set-back to another has been a deterrent to much-needed investment, both foreign and iomestic.

Recent attempts by Iranian officials to distance themselves from the death sentence imposed by the late Ayatollah Khomeini on Mr Salman Rush-die, the British author, indicate that they are concerned about

Algerians rally in support of accord

By Roula Khalaf in Paris

Thousands of supporters of Algeria's main opposition par-ties, including the banned Islamic Salvation Front (FIS), gathered in Algiers late on Frigathered in Algers sate on Fri-day to support an accord for national reconciliation signed by the parties in Rome in Jan-uary. The accord has been rejected by the army-backed

Algerian government.

The meeting in the Harcha stadium in Algiers marked the first time opposition parties have sought to take their proposal directly to a population caught in a hloody conflict hetween security forces and between security forces and armed Islamic groups. The civil strife, which erupted in 1992, has already cost more than 40,000 lives.

Although permission to hold the meeting was awarded by the government only three days earliar, some 8,000 to
10,000 people — as many as the
stadium could accommodate —
attended. They chanted slogans calling for an end to the violence and against the presi-dential elections planned for the end of this year.

The accord signed in Rome was the product of an agreement between tha FIS and Algeria's main secular opposition parties including the National Liberation Front, the former ruling party and the Berber-based Socialist Forces Front. It committed the FIS to democratic principles and called for talks with the govermment leading to an end to violence and the establishment of a coalition government.

Tha agreement, however, was rejected by the government which bas since last November stepped up its military campaign against Islam-

France 38, Ireland 12

Tedium 1,

rugby 0 in

French win

In the last three months Terry

Kingston's Irish XV have been

implicated in three truly

appalling matches - two

against the bapless Welsh, who

would currently have difficulty

beating an egg, and a cracker against New Zealand. And it

takes two to contrive a non-

event on this scale, with the

French at least as responsible.

advertisement for rugby league

This match was a terrific

and not a bad one for the entertainment value of drying

But then what should one

expect of two teams who have

opted for kicking efficiency

over attacking flair in selecting

their back divisions? The goal-

kicking of Thierry Lacroix and

Eric Elwood was precision itself, with 12 of 14 kicks hit-

ting the target. But both sides

were woefully deficient in

France, with their immense

resources and tradition of open

attacking play, were arguably

the guiltier party. Their intermittent flashes of style were

far ontweighed hy those of

indecision or conservatism.

And when they did contrive

promising positions they were

hamstrung by the virulent dropgoalitis afflicting outside-half Christophe Deyland, who

failed with four.

enterprise or imagination.

Sharansky may lead new Israel party

By Julian Ozanne in Jerusalem

Israel's political parties have failed to use a unique opportunity to gather East European Jews into Israel and could face a new immigrant party vying for power at the next election in November 1996. according to Mr Natan Sharansky, the Russian Jewish dissident freed from Soviet detention in 1986.

He said Israel's 600,000 Russian Jews who immigrated in the last five years and fuelled economic growth averaging 5 per cent a year felt deeply betrayed by the two main political parties, Likud and Labour, Recent polls show that at least 45-50

per cent of Russian are disillusioned with the political system and would vote for a new party. The polls also show Mr Sharansky is the overwhelming choice to lead such a party. On a range of issues from economic

liberalisation and democracy, housing and joh creation to cultural pluralism, Russian Jews were demanding political change which might only be possible by entering politics, Mr Sharansky said. The creation last week of a new immi-

grant political movement led by Mr Sharansky has caused unease among Israel's traditional political parties. The Labour-led government of Israeli mime minister Yitzhak Rabin won the last election largely because he gained at least half the Russian vote. With Russians now making up 11 per cent of Israel's 5.4m people and 14 per cent of the Jewish population, a political party supported by the majority of Russians could decide who takes power in 1996. Since 1986 Mr Sharansky has avoided

party political activity, concentrating instead on lobhying for increased immigration from the former Soviet Union, where up to 1.4m Jews still live. He now

believes that the political establishment has become lethargic about immigration and is worried that increasing assimilation of Jews across the world will eliminate the opportunity to gather all Jews into Israel.

With the collapse of communism we have had a unique opportunity in the history of Zionism to bring the remnants of East European Jawry to Israel," he said. "But there has been no strategy and no attention about how to do this. The government seems to be content to wait for more pogroms to force Jews to flee to Israel. What we need to do is to make Israel a much more attractive place, a centre for excellence and not a shelter from perse-

Deep discontent among the Russian Jews already in Israel sent out negative signals to Jews thinking about immigrating, said Mr Sharansky. The Rus-

den crop of highly educated engineers, scientists, computer and software analysts and technicians. But while about 80 per cent of Russian immigrants had found jobs, only 30 per cent were working in their professions.

The new party would be likely to focus on greater and faster economic liberalisation and privatisation of the large and inefficient public sector; better incentives for start-ups and small companies; housing reform including better loan facilities and the sale of the 92 per cent of the land owned by the But Russian discontent is also about

the conflict between a largely European culture with a Middle Eastern one. Mr Sharansky said Russian immigrants wanted to maintain their culture and their language and wanted reform of

RUGBY WORLD CUP

NZ 48, Sectiond 30

Scots go down still battling

By Huw Richards

Scotland, the one British country to have emerged with credit from all three world cups, did themselves proud again as they were ejected from this year's competition by rampant New Zealand.

The right team won. But where Ireland and Wales left their fans emharrassed and frustrated by the manner of their departures, the Scots and in particular the retiring Gavin Hastings - were rightly cheered off as heroes by the large and vocal following who had sustained them throughout a terrific contest.

In defeat they equalled the record score against New Zealand in their 92-year rugby history, and became the first British side ever to cross their line four times. Those records reflect enterprise, fire and imagination in the face of the irresistible firepower of the All Blacks. If they can overcome the loss of the talismanic Has-tings, they can look forward to being a force in Europeau

rugby over the next few years. Once again All Black winger Jonah Lomu - feelingly termed "a big bastard" by Hastings to post-match press conference laughter - inflicted massive damage, showing that he has speed as well as power, scoring one try and setting up another. And outside-half Andrew Mehrtens has not only the cool head and kicking skills of his predecessor Grant Fox, but much greater creative qualities and lethal pace, showed to dev-

astating effect with a solo try. The message that allowing this lot anything like parity up front means their backs will destroy you will not have been lost on England even amid the

euphoria of their own victory. Scotland indeed dominated much of the first half, driving the New Zealanders back and winning a series of penalties from referee Derek Bevan, whose display should make him hot favourite for the final But, 17-9 down at the break, they were devastated by three tries in the next eight minutes Little, Mehrtens and then

Bunce going over. Amid the deluge Doddie Weir drove over from a rolling maul - and repeated the trick late in the game as the Scots refused to lie down, Skipper Sean Fitzpatrick marked his 100th international with New Zealand's last try,

England gain their revenge

England 25, Australia 22 England won their quarter-

final against Australia in the most dramatic fashion in Cape Town yesterday. Rob Andrew, who scored 20 of England's 25 points, landed a drop goal from 40 metres as the scoreboard showed that 42 minutes of the second half had been played and just after a londspeaker announcement that "there may be extra time".

Andrew scored 20 of his team's 25 points and then gave the credit to his team: "I don't think anyhody stood out," he said after England gained revenge for their 1991 world cup final loss to the Australians at Twickenham

"It was just a superb all-round team display, absolutely unbelievable," he said. "When we were 13-3 up, to let them back into it was a bit disappointing. Some past England sides might have collapsed at that point, but we

England started strongly. Apart from a smattering of empty seats Newlands might have been Twickenham on an autumn afternoon. Under overcast skies, England were greeted by a huge roar from a crowd dominated by their supporters. Only a little puff of dust as Rob Andrew kicked off indicated that, even after four days of rain, this was not an English field.

Michael Lynagh, the Australian captain and kicker, and Andrew exchanged early penalties. Andrew then put England abead after a late tackle.

Victorious England captain Will Carling received a congratulatory dressing-room

kiss on Sunday from the "old fart" who

sacked him as England skipper last

month, agencies report. Dennis Easby,

president of the Rugby Football Union, was among the first to join the English

S Africa 42, W Samoa 14

South Africa faces an anxious

few days before it can name its

team to face France in the

Injuries and controversies

that have dogged the Spring-

boks throughout the tourna-

ment continued on Saturday in

a 42-14 victory over rngged

Western Samoa at Ellis Park

wing Chester Williams, who

set a national record with four

tries in his world cup debut

after missing the pool round of

the tournament with a ham-

But several key players will

string injury.

Good news came from flying

semi-finals, reports AP.



Heading England's way: NZ winger Jonah Lomu crashes through Scottish defenders yesterday

celebrations at Newlands after the 25-22

eyes and kissing the captain afterwards."

said coach Jack Rowell, "We've got this

on video, it's worth a fortune and f'm

"I saw the president with tears in his

win over world champions Australia.

Victor [Ubogu]'s agent."

Controversy dogs South Africa

undergo treatment and fitness

tests before the side is named

to face France in the semi-final

Full-hack André Joubert.

who hroke a bone in his left

hand in the first half, is almost

Forwards Ruben Kruger.

Mark Andrews and Rohus

Wiese also were hurt during

the game, while wing James

Small continues to be troubled

forced him off the bench.

by a hamstring injury that

Flanker Kruger aggravated a

longstanding shoulder injury,

while lock Andrews suffered

from chest pains and lock

certainly out of contention.

Saturday in Durban.

England penned Australia back with a series of up and unders and when Australia finally entered England's balf their back moves, as against South Africa, looked laborious

A try hy Tony Underwood, who ran balf the length of the pitch. was converted by Andrew, Lynagh pulling Australia back to 13-6 just before half time.

Andrew kicked another pen-alty but again Lynagh levelled.

Australia's pack was gaining in strength, and on the hour, Lynagh, pnt Australia ahead after scrum-half Dewi Morris

strayed offside. At the drop-out flanker Tim Rodher was obstructed and Andrew made the score 19-19. Three minutes later England were penalised on their own 22, for killing the ball, and Lynagh again put Australia ahead.

England seemed spent. However, they summoned an attack and won the penalty from

Added to the injury woes

were allegations that scrum-half Joost van der Westhuizen

made insulting remarks to

Western Samoan players, and

that Western Samoan captain

Pat Lam was bitten during the

The accusations came just a

SEMI-FINALS

France v South Africa

(Durban) 1300

NZ v England

(Cape Town) 1300

Saturday, June 17

Sunday, June 18

week after the South Africans,

which Andrew made the score 22-22 and set up the nervewracking final five minutes. Australia pressed. They won

scrum and seemed to have set up a drop goal but Tim Gavin, the No 8, drove instead. From the ruck the ball went not to Lynagh but to the wing, David Campese, who scuffed his kick.

the most of the let-off.

within 72 hours after referring to the RFU

It was only the second win for England

were involved in a brawl dur-

ing their 20-0 win over Canada

that saw hooker James Dalton and wing Pieter Hendriks

Springbok captain Francois

Pienaar and team manager

Morné du Plessis denied any

knowledge of slurs made

against the Samoans and Pien-

aar said he was proud of his

Rugby World Cup directors on Sunday cited Westarn

Samoan full-back Mike Umaga

for dangerous tackling. A disci-

plinary hearing hy match com-

missioner Sir Ewart Bell, also

chairman of Rugby World Cup.

will take place today.

over Australia in thair last eight meetings

suspended.

team's discipline.

as "57 old farts" in a television documen

England, and Andrew, made

But the French were still too Peter Berlin strong all round for Ireland. A kiss for captain Will Carling from an 'old fart'

The Irish displayed their nor-mal virtues of competitiveness and defensive commitment. holding their own in the first half as penalty followed penalty. But the danger signals were there from the start. But Roumat dominated on the French put-in at lineouts and took advantage of Kingston's wayward throwing to peach a fair amount on Ireland's.

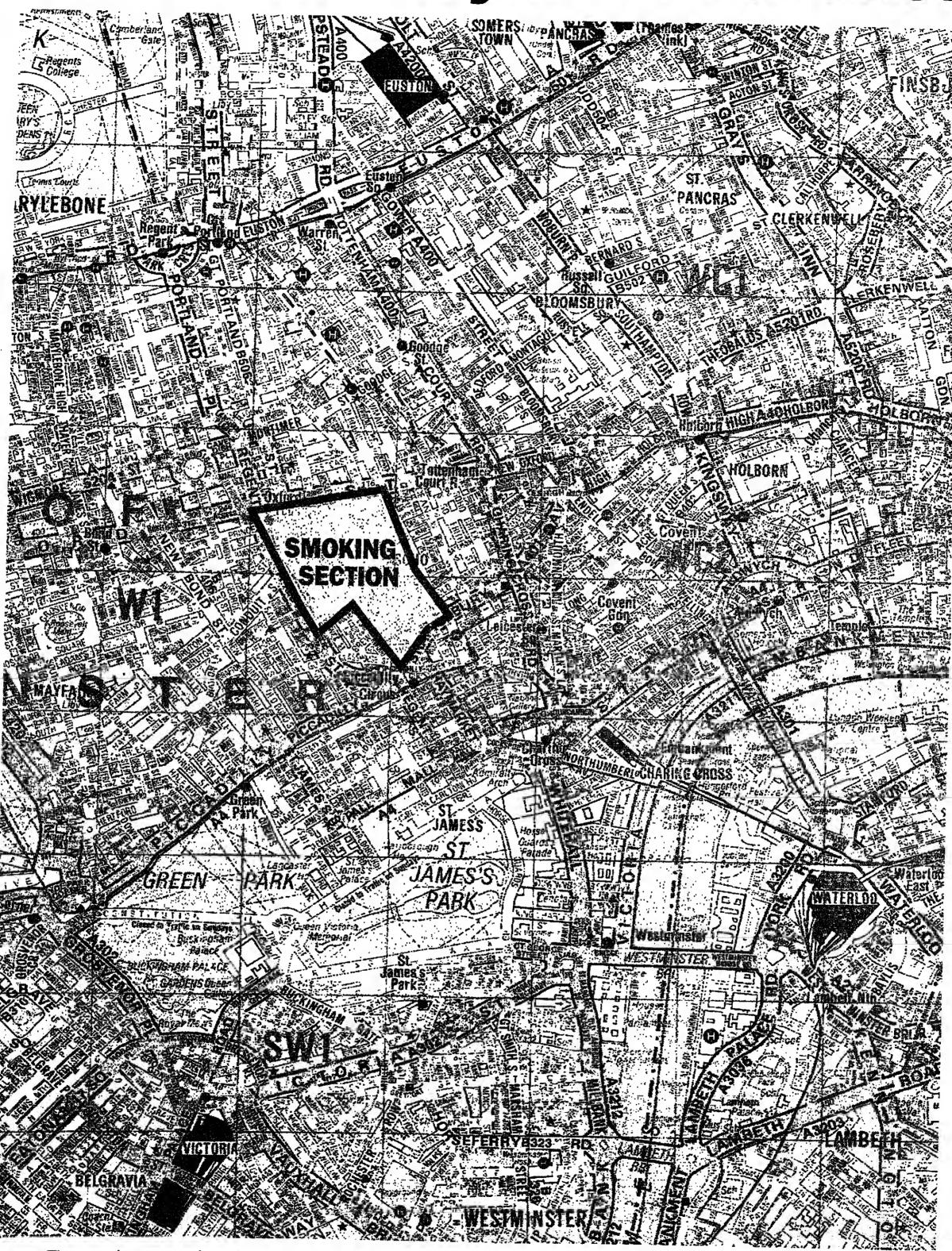
After the interval, Lacroix added two more penalties to equal the world record of eight held by Neil Jenkins and Gavin Hastings, but try-scoring efforts were epitomised by an abortive push-over attempt in which the French eight were ignominiously shunted back by Ireland.

The tries came late and undeserved - scorelessness would have suited this game. First French captain Philippe Saint-André crossed in the 78th minute after their umpteenth rolling maul, then Emile N Tamack ran an effortless 90 yards with an interception for an injury-time score. Intended recipient of the pass was Ireland's absurdly neglected wing Simon Geoghegan.

Huw Richards

هروا من الرص

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Algerians

PONDAY JUNE 12 1995

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NEWS: WORLD TRADE

At the Paris air show, aircraft makers reaffirm their confidence in the industry's future Airbus and Boeing slug it out Flying the flag

Hopes fade for US-Japan cars peace

Trade officials appear to have scant hope of progress towards a settlement of the US/Japan car trade dispute when the two sides meet today at the World Trade Organisation headquarters in Geneva. The talks are being held at

Jepan's request and mark the first step in its formal WTO complaint against the US threat to impose punitive tar-iffs on \$5.9bn-worth of Japanese luxury car imports.

The sanctions are due to be imposed on June 28, backdated to May 20, if Japan does not egree measures to boost domestic sales of US cars and car parts. Tokyo says the announcement is already damaging Japanese trade and represents e clear violation of WTO fair trade rules, a view that has almost universal support among trading partners.

However Japanese officials in Geneva say they expect the US to spin out the process in order to exert maximum pressure on Tokyo to give wey to US demands before the sanctions deadline.

The US has already proposed further talks in Washington on June 20, after President Bill Clinton's June 15 meeting with Mr Tomiichi Murayama, the

Japanese prime minister, during the Group of Seven summit in Halifax, Nova Scotia. By then the US plans to have filed its own WTO complaint alleging discriminatory practices in Japan's market for cars and car parts.

In a US television interview on Saturday, Mr Mickey Kan-tor, the US trade representa-tive, confirmed Washington's hard-line stance, and said: "We're not going to blink." He affirmed the sanctions would be imposed et the end of the month if there was no accord

Washington has firmly rejected Japan's demand that the case be considered under the WTO's emergency procedures. Under normal procedures, Japan must wait 60 days from its consultation request of May 17 to ask the WTO for an independent panel inquiry.

The US is sending a rela-tively low-level team to today's talks, headed by a junior legal counsel in the US trade representative's office. Japan has despatched two senior officials from the foreign and trade

Austrelia, which has declared a third party interest, will also be taking part in the WTO consultations, which may

to Australia and from the eastern US to Hong Kong will be possible within a few years, the world's two leading aircraft

manufacturers said yesterday.

Airbus Industrie, the European consortium, said it would be the first to offer super long-range aircraft, with a model capable of flying 8,000 nautical miles ready to enter service in 1997. Boeing of the US said its aircraft would not be available until 1999 - hut would fly 600 miles farther than the Airbus product.

Non-stop flights from Europe

The European consortium countered that it was also studying an aircraft which could fly all the wey around the world, making only one stop. This meant that, wherever passengers were, they would be able to fly home without touching down anywhere

The battle between the two manufacturers to provide air-craft with aver longer range is part of an increasingly hitter struggle to dominate the market for passenger jets with up

Boeing has just launched tha 777 aircraft at an estimated cost of \$5bn as a direct competitor to the Airhus A330 and

During separate briefings et the Paris air show yesterday, the two manufacturers spent much of their time disparaging one another's products. Boeing, which attracted fewer



Rell/Reging's V22 tilt-wing aircraft makes its Paris debut over the weekend

orders than Airbus last year, remains the world's leading manufacturer with about 60 per cent of aircraft sales over tha past few years, compared with about 30 per cent for Air-

Mr Jean Pierson, Airbus nanaging director, said yesterday he wanted to win 50 per cent of the market by the end of the decade. The consortium alreedy claims to have the world's longest range aircraft, the A340-200, which can fly 7,450 nautical miles. Airhus' new proposed aircraft, the A340-8000, would be able to fly over 500 nautical miles farther,

wanted the new 232 seat aircraft, it could be introduced in Boeing said its longest range

aircraft would be the 777-100X, a version of the aircraft introduced this year but with a shorter fuselage. The new aircraft, which will he available in Mey 1999, would carry 259 passengers, industrial base. compared with about 300 in the

would have a range of 8,600 Boeing unveiled the first hig deals at the nine-day show with orders worth some \$564m from three European airlines

777 model just introduced, and

jet. European Airbus consortium is expected to announce two orders on Monday. The commercial war between

Europe and the US was highlighted when French President Jacques Chirac, officially opening the show on Saturday, called for greater European co-operation to defend its

• The hlack B2 long-range US Air Force stealth bomber yesterday stole the spotlight at the Paris air show where it went on its first public display in Europe. The "Spirit of Missouri" B2 aircraft was built at a cost of \$500m by Northrop

\$1,000bn on new aircraft. McDonnell Douglas says that more stringent noise restrictions in North America will result in 4,800 new aircraft orders there. In the Asia-Pacific region, a

rapid increase in air traffic will lead to 4,000 aircraft deliveries over 20 years and the rest of the world will require 4,500 aircraft, according to their fore-Boeing said last week, how-

ever, that airline expenditure on aircraft would remain relatively subdued until well into the next century. This was because airlines would renair their halance sheets hefore buying new aircraft.

that some airlines' finances

for makers of civil aircraft

Michael Skapinker on a defiant McDonnell Douglas executive

f McDonnell Douglas was not a civil aircraft manufacturer it would now be looking for ways to become one, according to Mr Harry Stonecipher, the US group's chief executive. This is defiant talk from someone who only four months ago had to place full-page advertisements in the press denying his defence and aerospace company was planning to suspend production of its MD-11 aircraft.

Many in the airline industry feel it is only e matter of time hefore McDonnell Douglas withdraws from the civil aircraft business, leaving the field to its larger rivals - Boeing of the US and Airbus Industrie, the European consortium. At the Paris air show this weekand Mr Stonecipher insisted those who believed his group would ahandon the civil aircraft industry were wrong. Like Boeing and Airbus, McDonnell Douglas feels the industry will grow strongly

over the next 20 years, All three manufacturers calculate that airlines will spend

Mr Stonecipher, who became McDonnell Douglas' chief executive in September, agreed would not permit them to place orders. Air France, for example, has postponed the delivery of Boeing and Airbus aircraft. Mr Stonecipher said, how-ever, that Air France's decision was the result of its financial difficulties rather than an assessment of future growth of air traffic.

singric residen

mard Simon re

He does not believe growth in aircraft orders will remain slow until the next decade. Historically, he said, the aircraft market had shown it could change suddenly. In the early 1990s, demand for aircraft was so high that airlines were buying positions on manufacturers' production lines.

Then, six months later. those same airlines were seeking to delay their orders. It turned fast then and it will turn fast again.".
The level of demand will be

strong enough to support more than two manufacturers, he feels. A decade ago, he said, many Americans doubted their country could support three car manufacturers. They pre-dicted Chrysler would go out of business, leeving General Motors and Ford to represent the US industry. Chrysler survived and prospered by cutting

costs and improving quality.

Mr Stonecipher said McDonnell Douglas would do the same. Over three years the group has halved the time it takes to assemble its 155-seat MD-80 aircraft.

The group's drive to remain in civil aircraft manufacturing is expected to receive a boost over the next week when Saudia, the Saudi Arabian airline, announces a long-delayed order from Boeing and McDonnell Douglas. Mr Stonecipher said: "We

always let our customers announce the orders, but we are happy to see that this is apparently coming to a conclu-

Europe's rice import rules likely to anger US

The European Union has finally set its rules for rice imports, but the move is expected to spark a trade at the World Trade Organisation.

After months of pressure from European rice millers, the European Commission has agreed a new regime to protect Europe's industry. But officials privately acknowledged it was "eminently challengeable" under international trade laws.

Trade arrangements governing so that traders who have paid more cereals and rice frequently threat-

talks on the General Agreement and Tariffs and Trade and were finally resolved in negotiations behind closed doors just before the deadline expired in December 1993.

Commission officials, charged with the task of putting detail on that agreement, say they have been trying to pick up the pieces ever since.

The dispute centres on how to impose a ceiling price on rice imports into Europe. Washington believes that duty can only be applied on a consignment-by-consignment basis, ened to jeopardise the seven-year corresponding reduction in duty.

Brussels, however, has argued that such a system would encourage traders to claim they had paid more for their rice, and would hit rice tariff

As a result the Commission is to apply tariffs on the basis of reference prices, or quoted market price in the US, rather than consignments.

A US department of agriculture official said: "We have only called on the Europeans to live up to their Urnguay Round commitments, and that means running the system on a consignment by consignment basis." Brussels argued it had to change the application system if it was to defend its rice millers, ensure a revenue from rice tariffs, and avoid fraud. It is also understood there is no

special allowance for packaged rice, which is likely to prompt further disagreement. European producers had feared they would be undercut by US millers importing packaged rice under the white rice price ceiling, thereby using manufacturing costs to eradicate their ohligation to pay

US rice millers who were barred from the European market by prohibitive tariffs prior to the Urnguey Round deal have rejected any change

Rice demand in Europe has been growing quickly in recent years. While cereals consumption has levelled off, the market for rice has been growing at 5-10 per cent a year. In the UK alone the £150m market has been growing at more than 8 per cent

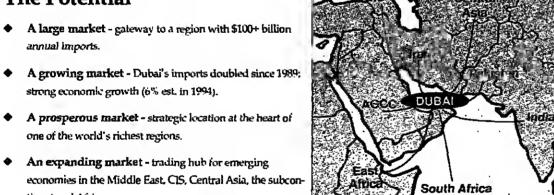
Mr Rohit Samani, managing director of Tilda Rice, a leading UK rice miller, welcomed the Commission peckage, arguing that "the rules make for a much fairer, more transparent system". Consumer prices should drop, he said, encouraging further consumption, growth and larger purchases of rice.

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ON-SHORE DISMANTLING OF **BRENT SPAR OIL STORAGE PLATFORM**

Greenpeace believes that the cost estimates used by Shell UK to justify. off-shore disposal of Brent Spar are not commercially competitive. They have not been made public.

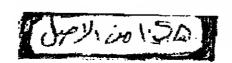
Greenpeace is inviting commercially competitive tenders for on-shore dismantling of Brent Spar in order to expose these costs.

Greenpeace believes that once these costs are made public, Shell's justification for off-shore disposal will collapse.

Once the sea-disposal route is closed, installations will be dismantled on land. Some 400 other off-shore installations will become available for dismantling over the next few decades.

The advantages to the on-shore industries of this possibility are obvious.

For full details of the "Scope of work" required to fulfil the tender, please apply as soon as possible in strict confidence to Greenpeace, Deutsche Sektion e V, Rambachstr. 1, 20459 Hamburg.



NDAY JUNE 12 1995

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Trip fuels speculation over Speaker's intentions

Gingrich close to denying presidential ambitions

By Jurek Martin, US Editor,

Congressman Newt Gingrich, the Speaker of the House of Representatives, yesterday came within an ace of denying he intended to run for the Republican presidential nomination next year.

Asked in a TV interview, hours before his afternoon "debate" in New Hampshire with President Bill Clinton, if it were possible to run for president and remain Speaker, he replied: "It would be extraordinarily hard -

and I don't expect it to happen."

Mr Gingrich's tour of the state, which holds the first presidential primary next year, has led to a welter of speculation about his intentions. It has also produced a pack of public opinion polls suggesting he would be ill-advised to run.

An ABC poll yesterday found twothirds believing he was "temperamentally unsuited" to be president and 59 per cent that "he does not represent the views of most Americans".

A Newsweek poll found Mr Clinton beating him 52-33 per cent in a

trailed Senator Bob Dole, the majority eader, by 49-40 per cent in their hypo-

Mr Gingrich was not surprised by these results. "I'm a very controver-sial Speaker," he said, "who is trying to lead a revolution." He thought his New Hampshire trip was merely a means of getting out his political mes-

The general view was that the joint appearance with Mr Clinton should work to the Speaker's advantage, mostly on the grounds that the mere act of sharing a platform with the president gave him de facto equality, even if he did not in the eod seek the

It was Mr Clinton, whose college graduation speech had been planned long before Mr Gingrich settled on his New Hampshire trip, who first, half-jokingly, suggested last Thursday that since they were in the same state at the same time they might just as well debate a few issues.

Mr Gingrich seized on the opportunity and his staff tried to persuade the White House to make the occasion

two-way race. But the president more public and with a larger audience than the planned small session with about 200 local senior citizens. He even proposed the presence of a conservative moderator.

During negotiations which were described as "prickly", Mr Clinton's advisers insisted on preserving the venue and format. But, with both the White House press corps and Mr Gingrich's large travelling media retinue on hand, it was already guaranteed to have a high profile.

The president also apparently felt it would be "churlish" to withdraw his initial offer and was reported to be confident that the "town hall" format was one in which he had always excelled, notably in the 1992 cam-

Yesterday morning Mr Leon Panetta, the White House chief of staff, said Mr Clinton expected to be able to draw effective comparisons between responsible budget-cutting and the sort of extreme alternatives with which the Speaker is associated. particularly on issues such as Medicare for the elderly, a prime concern for the New Hampshire audience.



House Speaker Newt Gingrich poses with a stuffed moose at a fundraising

Growth rate in Latin America may top 6%

By Stephen Fidler

Growth in Latin America could accelerate to more than 6 per cent a year by the end of the century if a set of fairly plausible conditions are met, according to a World Bank report

released today. While Mexico's financial crisis has hurt prospects for growth in the region this year and next, no significant downturn was in prospect. By early 1996 most countries will see economic conditions starting to improve, the report says. The crisis has served as a wake-up call" for the whole of Latin America and the Caribbean, making it clear that further policy actions were urgently needed, it said. The actions taken in the aftermath of the Mexican crisis had already improved prospects for acceleration of growth.

"We expect that if a set of plausible conditions are met. the region will grow on average, at rates in excess of 6 per cent per annum between 1998 and 2005," says the report, issued to coincide with a banksponsored conference on the region in Rio de Janeiro.

Elsewhere the report says a best case could see annual average growth for the region of 6.3 per cent between 1998 and 2003. However, to achieve this a series of further reforms, spotlighted by the Mexico crisis, need to be put in place, the bank argues.

"Raising domestic savings rates, encouraging private investment in infrastructure, reforming the labour codes and education systems, and deregulating and debureaucratising lower levels of government now top the list of reform pri-orities, it says. The report offers what it

calls fundamental lessons from the Mexican crisis. The current account of the balance of payments should not be allowed to get out of line. "Under most circumstances a sustainable deficit would rarely exceed 3 per cent of gross domestic Excessive reliance should be

avoided on sbort-term foreign capital which is very sensitive to changes in interest rates and to political events. Keeping speculative inflows under cootrol and encouraging long-term capital, as Chile has done, makes sense, it

Improvements in productivity lie at the heart of economic growth, and depend critically on government efforts in education and infrastructure. There is an inherent danger in using fixed exchange rates to stabilise economies, because it tends to lead to exchange rate overvaluation and a loss in competitiveness.

Attention needs to be given not only to the size of a country's public debt but its term structure and currency denomination. "The accumulation of short-term maturity debt is a sign of underlying fiscal problems and inconsistent macroeconomic policies.

A strong state is a prerequisite for a robust economy and the report urges governments to concentrate on building powerful institutions - legal systems, regulatory agencies and so forth - that help promote competition, protect the consumer and provide clear rules. Waiting for the benefits of economic growth to trickle down to the poor is not enough and oeeds to be reinforced by government policy.

In its assessments of the main Latin economies, the report is particularly critical of Venezuelan economic policies. Of all the main Latin American economies. Venezuela "is the only one in which the fiscal situation is out of hand. The fiscal deficit is almost 9 per cent of GDP." A dramatic contraction in private investment, a generalised banking crisis. capital cootrols, high inflation and an exchange rate estimate to be overvalued by 17-25 per cent all contribute to poor short-term prospects.

*Latin America After Mexico: Quickening the Pace. By Shahid Javed Burki and Sebastian Edwards. World Bank, Washington DC.

Halifax puts on its best face for the G7 summit

Bernard Simon reports the Canadian city is using the opportunity to seek inward investment

alifax, Nova Scotia, will this week briefly revel in the international attention that it last enjoyed half a century ago when troops and supply convoys set sail from its harbour to reinforce the Allied war

effort in Europe. Leaders of the Group of Seven industrial nations, joined by Russia's President Boris Yeltsin, are due to gather in eastern Canada's commercial and shipping centre for their annual summit for three days from Thursday. Like other cities which have

ing no effort to put on its best face for the estimated 5,100 del-egates, journalists and observers who are expected. Construction crews have

hosted G7 summits over the

past 20-years, Halifax is spar-

fresh coat of asphalt on parking lots near "Summit Place", the newly renamed waterfront office building where the leaders will meet.

A security fence will seal off about one square kilometre of the downtown area around Summit Place, forcing several dozen businesses to close for up to a week before the meet-

The crush of visitors is likely to stretch facilities to the limit. Hotels within a 100km radius of Halifax have been asked to give priority to summit bookings. About 1,600 local residents have signed up for summit volunteer jobs, such as ushering and preparing media

But Halifax's spring-cleaning has stopped short of the top-totoe facelift put on by Naples, been repairing roads, painting last year's G7 host. The city street lamps and putting a .. council and Nova Scotia's pro-

vincial government pondered, but then rejected as too extrav-agant, a C\$1m (\$725,000) plan to extend into deeper water the pipes which spew millions of litres of raw sewage into the harbour right in front of the summit site.

Nevertheless, local govern-ment and business leaders see the G7 gathering as a heavensent opportunity to put Nova Scotia's name on the map again. While Naples' clean-up was directed primarily at boosting the tourist trade, this year's hosts also hope to propagate a welcoming message to

Mr Don Mills, former president of the Halifax chamber of commerce, describes the summit as "an opportunity to display the fact that we're not a quaint little fishing village, but quite a sophisticated prov-

Nova Scotia's economy has up to now depended heavily on overnment activity and financial and other services. Michelin, the French tyre maker, and Volvo, the Swedish car manufacturer, are among a handful of foreign companies with manufacturing plants.

ut the province is oin-B ning its hopes for the future on high technology enterprises. The advantages for these businesses of a highly skilled workforce, an easy going lifestyle and market-oriented government policies could, so the argument goes, outweigh the drawbacks of being located in a relatively isolated corner of North Amer-

Dr John Savage, a family doctor who emigrated to Canada from Wales 28 years ago and is now the province's pre-

mier, says that Nova Scotia has "a happy combination of being fairly small and fairly big". The entire province's population is less than Im, of whom almost a third live in Halifax. But no fewer than seven universities are located in the Halifax area.

Nova Scotia has a pleasant relaxed ambience, marred only by winter storms. Its conservatism is reflected in Nova Scotians' unflinching affection for the British royal family. The Union Jack was flying in the grounds of the provincial legislature last mooth in celebration of "Royalty Week".

Among the few ripples which disturb the province's social and political tranquility are periodic protests by members of the black community around Halifax, many of whom are descendants of Empire loy-alists who fled the US after the

toric Properties shopping area in central Halifax. Organisers are crossing fin-gers that these events and the summit itself will persuade the outside world that Nova Scotla has come a long way since the days of the troopships, without losing its charm or hospitality.

British-American war of 1812.

tourism and investment pro-

motion during the summit eas-

ily matches preparations for

the meeting itself. Indeed,

many of the planned "summit"

activities would be more suited

to a trade convention or amusement park, than to dis-

cussions on reform of the Inter-

national Monetary Fund or the

An exhibition of trade and

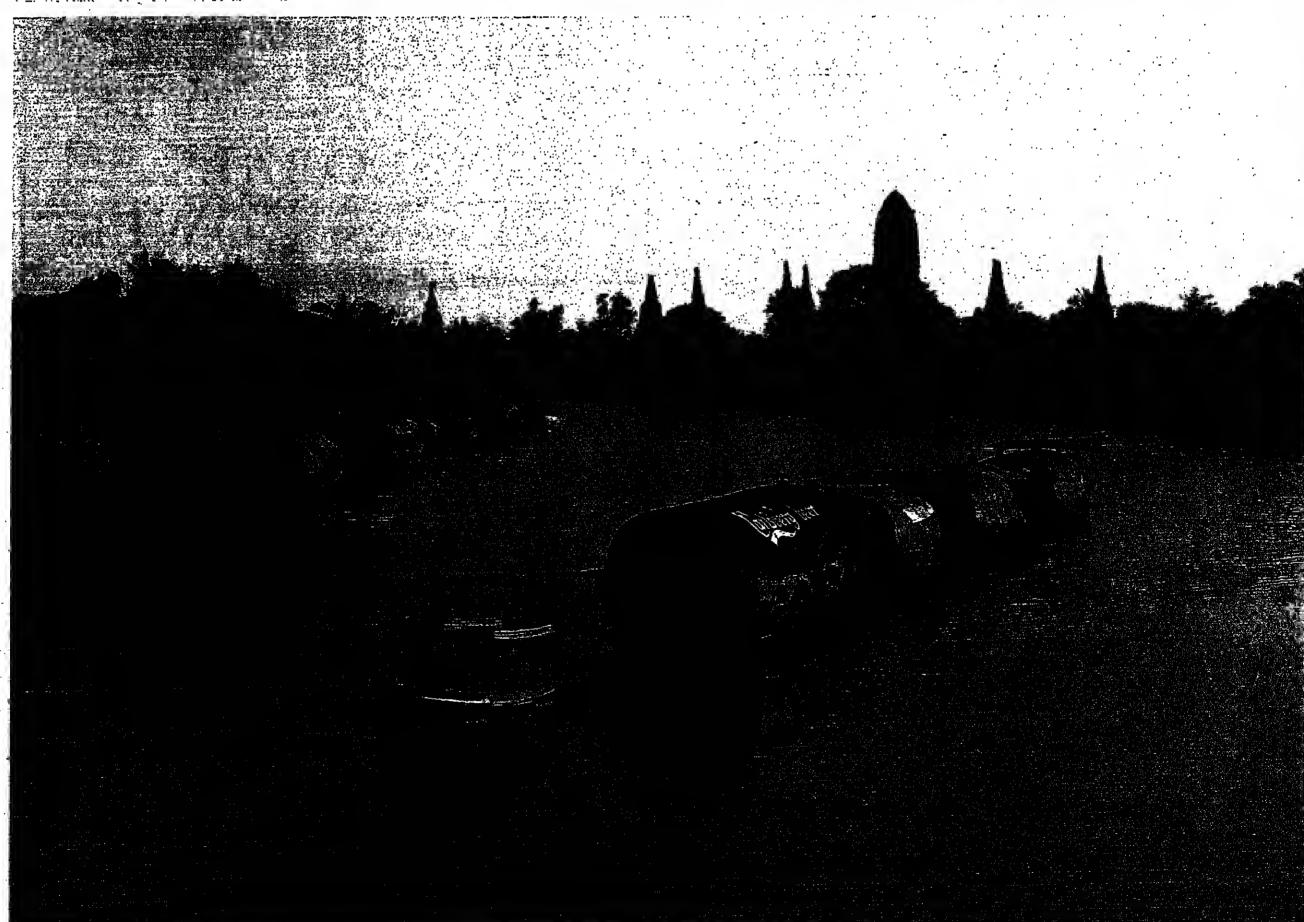
investment opportunities, named Summit Odyssey, will

be set up around the Grand

Parade and the restored His-

US-Japan auto dispute.

The effort being put into



Probability the cast bear in the world

End in sight for executive share options

Political Editor

in London

The Greenbury Committee on company directors' remuneration is planning to sound the death-knell on executive share options by recommending that companies replace them with other long-term incentive

The disclosure came as Mr Jeremy Hanley, the Conservative party chairman, called on directors of big companies - especially the privatised utili-

The London Stock Exchange,

the world's third-largest stock

market, has become a less effi-

cient place to deal in shares

than the stock markets of Bra-zil, Thailand, Mexico and Tur-

key, according to one of the

world's leading consultants on

The data shows a sharp rise

in the percentage of share

deals completed late since the

London market adopted a

tighter settlement timetable

last year, and raises ouestions

about the market's ability to

cope with an even shorter set-

tlement schedule starting this

Share trades that fail to be

settled - share certificates

delivered to buyers and pay-

ment delivered to sellers - on

time are expensive for market

participants, which have to

borrow sbare certificates or

money to cover the gap.

The data from US-based

Global Securities Consulting

Service and UK-based Lee

Schwartz Associates show a

marked decline in the effi-ciency of the London market.

This has occurred since the

exchange last July abandoned

its traditional settlement at the

end of fixed two- or three-week

account periods - and moved

to rolling settlement 10 days after each deal.

The change has left London,

share settlement.

ties - to exercise "more self control" and refrain from cashing in share options before Greenbury's report is published in mid-July.

Mr Hanley, speaking on the BBC, said: "Ahead of the Greenbury committee, some self-denying ordinance would he desirable".

In the strongest criticism to date by a government minister of utility directors, he said: "I think the way in which the options have been cashed has been inconvenient to the argu-

where 12 per cent of global equity trading by value takes

place, trailing well behind

other leading securities mar-kets such as New York, Tokyo

and Frankfurt, and operating

at a lower level than several

exchange abandoned rolling

settlement, 95.27 per cent of

trades settled on time. One

year later, that had fallen to

84.97 per cent. After June 26, all shares will

have to settle five days after

According to GSCS, London

now has the most inefficient

share settlement system of any important world stock market

when factors such as the pro-

portion of trades failing to set-

tle on time, the length of time

for which they remain unset-

tled, the average size of trades

and local interest rates are

taken into account. These fac-

tors are used to compute a

"benchmark" of settlement

each bargain is struck.

emerging markets.

London SE lags

behind rivals

on settlements

ment of the success of privati-

Mr Gordon Brown, the opposition "shadow" chancellor, said: "Executive share options as a reward for performance have become discredited. They are no longer the appropriate way to reward performance".

The Greenbury Committee, established with government backing to review corporate remuneration practices, will urge companies to adopt long-term incentive schemes which link directors' pay more

closely to the performance of their companies, in place of traditional executive share options. In its report to be published in mid-July, the committee will not recommend that executive options should be outlawed. However its members - led by Marks and Spen-cer chairman. Sir Richard

Greenbury - expect most big companies to follow its advice. It will say that any company coming to the stock market intent on granting such options should not do so until

about a year after flotation. Such a delay would allow the floated company's share price to reflect its long-term pros-pects and minimise the likeli-hood that directors would earn substantial "windfall" profits from their options.

There has been widespread disquiet that directors of ntility companies in particular were given options during a flotation at prices well below the prices justified by the com-

panies' longer-term prospects. The committee will provide a

figleaf to Mr John Major, the prime minister, to make good his promise to legislate on executive pay. It will say that although its recommendations

to increese disclosure of directors' pay in annual reports can he implemented through changes to the Stock Exchange's rules, company law should be amended to make it consistent with these new

tives are independent. Better at beer than

By Diane Summers, larketing Correspondent

Many of Britain's senior managers have no idea what base rates are, how much their companies pay for accountants or secretaries, or what phone calls cost, but they can be relied on to get the price of a

Three-quarters of managers

While a temporary secretary costs between £6 and £12 an hour, nearly a third of £2.50 and £50 an hour. Nearly half also failed to guess the true cost, between £104 and £184 a day, of hiring an

The survey of 600 company directors, owners and managers, was conducted for British Telecommunications after Oftel, the telecoms regulator, last month found that domestic phone users thought they were paying np to three times more for their calls than was actually the

Nine out of 10 managers half knew that the Sun newspaper's price is 23p.

exchange rules. Companies will be urged to ensure that their non-execu-

base rates

pint of lager right.

questioned by NOP, the survey organisation, had no idea that base rates were 6.75 per cent, with some guessing as high as 25 per cent or as low as 0.4 per

managers guessed outside this range, with estimates between

knew that a pint of lager in a pub costs £1.30-£2 and nearly

Female managers appeared to be no better at knowing

prices than men.

backs Blair on minimum pay

Mr Tony Blair, the Labour leader, won the support of his party's policy forum yesterday for a new strategy on mini

pay.

The policy forum agreed there should be no exact pay formula setting a target figure before the next general election. Instead, it called on the next Labour government to establish an independent low-pay commission of employer and union representatives to propose a minimum pay figure,

depending on economic circumstances.

However Unison, Britain's largest public sector union, at its conference this week will back the introduction of a statutory national minimum wage of £4.15 an hour. Last week the executive of the TGWU general union said it would submit resolution for this autumn's Labour conference in support of the £4.15 pay target, which is half the male median earnings.

Labour leaders believe the unions are in danger of isolating themselves over the issue just as they did earlier this year when they both opposed changing the party's constitution on Clause 4 over common ownership. They believe most trade unions will rally behind them. Robert Taylor.

Directors working 'too widely'

Some UK board directors have so many non-executive directorships that it may be impossible for them to fulfil their duties to each of the companies which pay them, according to research from Pensions Investment Research Consultants.

PIRC, which advises institutional investors on corporate governance matters, has identified 12 directors of the top 250 UK companies who hold four or more non-executive directorships. Moreover, PIRC's research shows, some multiple directorships are held by individuals with full-time executive positions in a FTSE-100 company.

PIRC estimates that the average non-executive director needs about 20 days per year to fulfill his responsibilities. "According to PIRC's research, however, there are numerous directors who would be unable to devote this amount of time," PIRC said in its latest newsletter. Norma Cohen.

Recovery may be looking up

The UK's economic recovery may have peaked a year ago but after three successive quarters of decline it could now be levelling out or even turning up again, a survey of small ousinesses indicates.

The tentative conclusion from the first 1,200 of a series of 6,000 interviews being conducted by the Forum of Private Business, a Cheshire-based lobby group representing 23,000 privately owned businesses in the UK.

The forum is one of the more respected small business associations. It interviews a quarter of its membership every quarter, so that each is seen once a year. Interviewers record the past 12 months' turnover, so actual trends in sales can be plotted accurately.

Food poisoning: Some 7 per cent of UK adults believe they suffered from food poisoning in the past year against only 3 per cent a year earlier, according to an annual survey on food safety. An underlying increase in food poisoning reported to health authorities appeared to be exacerbated by a growing tendency of people to blame stomach upsets on food rather than illnesses such as gastric flu, according to the Food and Drink Federation. Roderick Oram



Damage from two nights of rioting in Bradford, in the north of England, could run into hundreds of thousands of pounds. During the weekend, police were bombarded with petrol bombs, dozens of windows were smashed, cars were burnt and a garage partially destroyed in rioting by 400 youths. Senior police last night blamed a generation gap in the Asian community for the disturbances.

Building materials trade gap widens

efficiency, which allows comparisons across markets. GSCS data is compiled quarterly from a survey of the world's 10 biggest global custodians, international banks which hold investors' securi-

ties in safekeeping. At the start of the second quarter of 1995, London's benchmark" score, at 76.92 per cent, was the lowest of any British exports of building

materials surged ahead by 14.1 per cent last year to a record £3.02bn (\$4.74bn) as producers took advantage of a weak pound and stronger demand from continental European construction industries,

However, this was more than offset by a big rise in timber prices and Britain's trade deficit on building materials widened by 22 per cent to £1.74bn.

According to the Department but have since slipped by 10 fthe Environment, the deficit per cent to 15 per cent following an upsurge in exports from of the Environment, the deficit on wood and timber products rose by 18.6 per cent to £1.55bn. This represented almost 90 per cent of the total building materials trade imbalance.

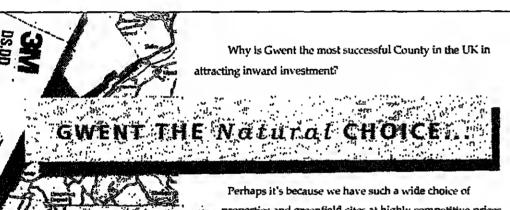
Construction products and materials accounted for 16 per cent of the UK's combined trade deficit last year of £10.53bn. Prices of lower grade struc-

1992 and the end of last year

Baltic states. Lower wood prices should belp reduce the trade deficit in huilding materials which. before last year's increase, had

reduced by £1.1bn since it reached £2.49bn in 1990. Since 1990, exports have increased by more than £800m to £3.02bn Imports over the same period tural timber, mostly spruce.

bave risen by just £66m to



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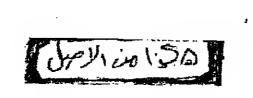
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UK COMPANIES

TODAY COMPANY MEETINGS: Computer People, The Mendian Hotel, Piccadly, W., 10.00

Greatuscre, The Steam Deploment, Streetley on Thomes, Berkshire, 10,30 Mowlern (John), Cavendish Conference Gentre, 18-20, Duchess Mews, W., 12.00 Kelt Energy, College His Associates, 29, Greaturn Street, E.C., 10,30 MS Smaller Co's Tet, Seltire-Court, 20, Castle Terrace, Edinburgh, 12.30 Trinity Hidge, The Allestey Hotel, Coventry, 11,00

BOARD MEETINGS: Finals: Acut

Railyrchill Gold Capital Genring Tax Charaberiain Phipps Christian Sabresen Ermort Hodga Ermodoller (Hidga) Field Cirp Portsmouth & Stande Hanold

TOMORROW COMPANY MEETINGS:

Chester, 12,00

S.W., 11.00

ows, Chester Grosvenor Hotel

ra, Waveney Hotel, Seccion

Cordinat, The Queen Elizabeth II

Estate, 22-24. By Place, E.C.,

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Suffork, 12.00 EPG, 23, Great Winchaster Street, E.C., 11.00 Paramitie, 4, Chiswell Street, E.C., 12:00 Specialeges, 14, Lyon Way, Greenford, Addiseas, 2:00 Templeton Latin America Inv Tst, Butchers' Half, Bartholomew Close, E.C., 11:00 cre, The Swan Deplomet, Streetley

Wensom, 10, Newhall Street, Birmingham, 11.30 BOARD MEETINGS: Finale: Azian Grp Bortam Hidge British Land Co British Thornton Hidge Great Portland Estates Great Portland Estates Guerrisen Media Grp Hadiaigh Inds Grp Hadiaigh Inds Grp Merston Thompon & Evershed Mountview Estates Northern Foods Oceans Consolidated Oulligotti Rowe Evens Inv

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BOARD MEETINGS: Finals: Amberies Grp Bering Emer Europe Bradford Property Tut Bristol Water Hidge HIJ Hire Mensfield Browery

M THURSDAY HIME 15 City of Oxford hiv Tst, 41, Tower HIN, E.C., 12.00 El Oro Mining & Explin, 41, Chevel Place, S.W., 11,30 Place, S.W., 11,30 Exploration Co., 41, Choust Place, S.W., 11,15 Huntisigh Technology, The institute of brectors, 116, Pall Moll, S.W., 10,30 Securities Tat of Scotland, Saffire Court, 20, Castle Tempo, Edinburgh, 13,50

Wakebourne, Hoare Govett Finance, 4, Broadcate, E.C., 10.00

BOWED MEETINGS CML Microsyster

Hartstone Grp London Merchant S Moorgate Sm Cos Rogellan Po Scapa Grp Smith New Court to Tool (Eng) Hidge

E FRIDAY JUNE 18 Dewhirst Grp, Morchant Taylor's Helt, Aldwark, York, 12.00 Helical Ber, The Mayfair Hotel, Stratton

BOARD MEETINGS: Finalis: Cambridge Water Dert Grp Lethem (Jemes) Interime: David Lloyd Leisure Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until imately six weeks ofter the

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E TODAY Beckman (A) 1p Bentalis 1.55p Bett Brothers 1.750 Chevron \$0.4025 Computer People 2p E.J. Du Portt De Neme \$75.0 Wankle Colhery 250.125

\$75.0 Eaton Fin 12'n9s Un Ln '14 06.25 Euchequer 12's '13/17 05 Full Bank Ind Fin So FRN \$18571.53 General Bectric Cop 10% Not June 10 '96 C\$1.00 Grace (NFQ \$0.35 Happositim Ind FRN '01 \$357.05 Happositim Ind FRN '01 \$357.05 Happosit \$0.25 Honeywell \$0.25 Jepan Dev Bank \$1:5% Nts '97 \$475.0 Kobe Steel 4.7% Bd '98 Y470000.0 Kuboto FRN '97 Y65722.0 Magnetia Grp 0.1p Attaul 4.30% Bd '87 Y430000.0 Do 4.50% Bd '98 Y460000.0

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There is no better current example than President Nelson Mandela who has used the rugby world cup to burnish his already shining reputation among much of South Africa's white population. He warmly embraced the national team, visited the players in their training camp, was present for the initial triumph over Australia. and never once commented critically on the striking absence of black faces. It was gesture politics at its most effective. Radio phone-in programmes were inundated by calls from grateful listeners praising the president, and white-owned newspapers were no less anxious to promote the view that the predominantly white sport of rugby had served to unite the country

A week later a dozen international players visited Soweto, the teeming and grossly deprived hlack township outside Johannesburg which had played such a prominent and painful part in the struggle against apartheid. It could have been the South African squad which made the ges-

As in sport, so in politics ture and reaped the gratitude, but instead it was the Welsh who became the first international team to visit Soweto and conduct a training session for 200 of the

township's youngsters. The visit belped also to underline the more profound challenges facing South Africa, and why hitter references to what is seen as a lack of white reciprocity crop up increasingly in conversations with ministers and senior members of the ruling African National

In part, the Sowetan experience offered the best of the new South Africa. The initial negative impression, created hy wailing sirens and seven police vehicles parked around the scuffed and uneven open space where the training session was to be held, proved misleading. The mainly white officers of the Sowetan Flying Squad were not there to intimidate, but because last year several of them had hecome members of the local hlack rugby club. Multiracialism was beginning to take root Soweto.

But while the will for further progress was there, as it is on the broader South African stage, the means for carrying it forward bad yet to materialise. "We have become very

fashionable. Everyone wants to say they have played against Soweto, because of our name and because we are integrated," says police major Martiens Steyn. "But apart from some kit and other equipment given to us hy the British we have nothing, no proper pitch, and what little money we can raise goes on travelling to away matches. Why don't you go and ask him what help he's pre-pared to give us?" Him was Avril Malan, former captain of the Springboks, now director of development with the regional

rugby authority. Malan is sympa-DATELINE thetic to the Sowetan

plight, keen to

emphasise the social

benefits of integrated

rugby, but deeply

cautious about the

provision of material

assistance. He emphasises the need

Johannesburg: the white community could play a bigger part in easing pressures, writes **Roger Matthews**

approach, both in terms of rugby administration and in the development of players. As in sport, so in politics. Some of those frustrated with the slow pace of economic delivery were back in their tens of thou-sands on the streets of Johannesburg last week. It was the biggest demonstration in the city for more than a year, and a reminder of the political muscle that the trades unions can muster. The specific union targets were to secure improvements in the proposed new labour rela-

tions legislation, and to persuade the govarnment against moving any further towards the privatisation of state assets. Mr Mandela may not have agreed with the unions specific aims, but he was not going to miss the opportunity to make a brief appearance in a gesture of sympathy with the people who had brought him to power.

ut it was a political gesture that drew a howl of protest from Mr F W de Klerk, the last white president of South Africa, leader of the National Party, and deputy president in Mr Mandela's cabinet. "The demands of time require President Mandela to be full-time president to everyone in South Africa, and not to give so much attention to the party interest of the ANC," he told parliament last week. By appearing at the demonstration, Mr Mandela was backing the unions, sending all the wrong signals to foreign investors, and drawing a line

Mr Mandela's action had cast a dark cloud over the prospects of securing halanced labour relations legislation, thundered Mr de Klerk. It was an outburst rich in irony for ANC members, and illustrated again one of the largest gaps in percep-tions between the black and white segments of the government.

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ANC ministers are sensitive to the pressures at the grassroots, which they say are becoming more acute. They accept that economic progress will be much slower than they would wish, and are increasingly anxious about finding ways of reassuring their supporters. The National Party and the white community at least Party, and the white community at large, could play a significant part in helping to ease those pressures. But ANC ministers

say there is minimal response.

Whites accept Mr Mandela's efforts at reconciliation as their due and give little in return. All parties accept the need for a more equal distribution of national wealth and opportunity, but the efforts being made to address the issues are falling well short of what is required. In the pursuit of nation building, it might just be more pro-ductive to build better playing facilities for rugby in Soweto, than to win the world

FT GUIDE TO

G7 SUMMITS

So it's that time of year again. The Heads of government of tha Gronp of Seven countries are heading off for sunnier climes for their annual summit. Well. Halifax, Nova Scotia, may not be

everyone's idea of a weekend break. Bnt you've got the drift. The leaders of the G7 early 1990s. - that is the US, Japan, Germany, France, Britain, Italy and Canada - will be converging on Halifax on Thursday and staying until Saturday. Finance and foreign ministers will also take part, as will Mr Jacques Santer, the president of the European Commission, and Mr Boris Yeltsin, the Russian president, who arrives on Fri-

This is the economic summit, isn't it? The G7 meetings started as economic summits. That was in the mid-1970s when the world economy was reeling from the hreakdown of the post war Bretton Woods system of semi-fixed exchange rates and the first oil shock.

International monetary relations, multilateral trading issues and economic relations with the developing world have been on the agenda of all G7 summits. But while economic policy has been the core business of the summits, the interest shown in it by the leaders has varied. The early summiteers put their faith in policy co-ordination to pull the world ont of

This approach was discredited by the

early 1980s because of high inflation, and countries relied more on their own poli-cies. Co-ordination was back in vogue in the mid to late 1980s only for the G7 to revert to the Sinatra Doctrine of "doing it my way" in the recession years of the

The deployment of Soviet SS-20 missiles in Europe and the invasion of Afghanistan meant political and security issues became increasingly important from 1980 onwards. The fall of the Berlin Wall and the collapse of Communism in 1989 created a whole new agenda and hrought Russia increasingly into the G7 orbit so that it now joins in the political talks in

So it's really just an opportunity for higwigs to chew over the issues of the day? Not really. A lot of preparation goes into summit. That's where the "sherpas", the officials who prepare the meetings, get involved. A good part of this year's summit will be concerned with the reform of international institutions such as tha International Monetary Fund and the United Nations because the leaders agreed last year that they would work towards

On the other hand, summits are always being overtaken by external crises. An Israeli invasion of Lebanon overshadowed Versailles. The nuclear fall out from the Chernobyl disaster hung, literally, over

Tokyo in 1986. This year's summit will probably be overshadowed by events in Bosnia. The fact that the threat posed hy Chernobyl will still feature in this year's communique shows how some crises become fixtures.

All this talk of preparation seems hizarre. I thought these meetings were supposed to be informal get-togethers? That was the original idea. In fact, the first of these annual jamborees, the Rambouillet summit in France in November 1975 was billed as a "fireside chat". Only six countries took part that year (Canada came on board in 1976, the European Com-

mission in 1977). Delegations were small. After that the summits ballooned in size and splendour. An early warning sign of hurgeoning pomp came in the preparatory phase of the 1980 Venice summit when Washington bombarded the Italian authorities for details of President Jimmy Carter's motorcade (difficult to supply in a city of canals). However, the past two years have seen an effort to hring the summits back towards the Rambouillet

As a rule of thumb, the higger the summit the more useless it has been. Certainly, that was the case with Versailles in 1982 which was an extravaganza, notable only for ill-concealed acrimony among the participants. The Paris summit of 1989 was big and jolly, but that was because it got mixed up with the celebrations of the bicentenary of the French revolu-

No one remembers the 1990 Houston summit for its record 84-point economic declaration. Instead it was the look of puzzlement on Mrs Margaret Thatcher's face when she was presented with a pair of cowboy boots, and the ten-gallon hat worn by the diminntive Japanese premier Toshiki Kaifu at the summit rodeo that stick in the mind.

Summit extravaganzas became discredited with the Munich meeting in 1992. An excess of ceremony helped Munich stretch over nearly four days, making it the longest summit so far. Munich was where President George Bush and the US sherpas are supposed to have needed more than 40 vehicles to move them from one location to another. The G7 leaders finally realised that such excesses did not play too well with TV audiences at home wbo were suffering from the effects of recession, especially when little was

The Munich summit, for example, failed to address the key problem of that year -the stalled multilateral trade talks. Adding insult to injury, the G7's final economic declaration, which pledged to "act together to assure...growth picks up", was followed barely a week later by a

Bundesbank interest rate rise that added to Europe's economic misery and accelerated that autumn's crisis in the European

But surely, they haven't all been non-

No. Tha Bonn summit of 1978 was an early example of activism. The seven agreed a co-ordinated boost to their economies, with Germany taking the lead. Unfortunately, these plans were upset by the second oil crisis and crashed in recession and inflation. Germany ended up hlaming the Bonn summit for an uncharacteristic spell of inflation that helped end the career of the then Chancellor, Helmnt Schmidt, Germany has been averse to pol-lcy co-ordination ever since.

So you are telling me that these summits are a waste of time? Yes, I mean no.

The summits do set benchmarks against which future actions and policies can be jndged. They have probably helped to market-based economic policies, among

It is possible to argue that the summits have saved the world from protectionism and a 1930s style depression, especially in the early years. At that time, the world economy was less interdependent and the annual G7 pow-wow helped keep beggarmy-neighbour policies at hav.

In this age of information overload, it is probably even more important for leaders to understand each others' problems at first hand. But it's a close call. The present particularly nasty trade dispute between the US and Japan either shows you how important it is that the G7 leaders stay in touch or how little progress they have made in 20 years.

So have summits a future?

The omens for Halifax are quite good. If all runs according to plan, it will be a greatly slimmed down affair compared with the meetings of the early 1990s, and far more workmanlike. At the last count, 5,100 delegates, journalists and observers were expected in Halifax for the event. That is an awful lot less than a few years

With luck, this week's meeting might give G7 summitry a new lease of life. However, at some point there will have to be a review of the GT's composition and the logic behind the group. It is hard to see how a group containing four European nations while excluding vast, fast growing economies such as India and China can bope to set the world's economic agenda in the longer term.

> Peter Norman, **Economics Editor**

Prague's late night corporate lawyer

Vincent Boland finds Daniel Arbess burning the midnight oil over investment in the Czech Republic

hen Daniel Arbess was leaving New York to begin working for his law firm in impecunious eastern Europe five years ago, his senior partner took him aside for a final word of advice. "You'd better make sure we get paid." the partner confided, anxiously.

Memo to White & Case. New York: Arhess worked 42 straight hours the first Friday and Saturday of this month. Then he got three hours' sleep and got up to work some more. Memo to Czech government: the bill is in the post.

The reason for the long hours is one of the most complicated deals ever negotiated in the Czech Republic - a \$700m investment in the oil refining industry hy a consortium of western oil majors that looks set not just to break the lawyer's endurance record hut to rewrite Czech law in a crucial and underdeveloped area.

If the deal is closed by deadline and success is not guaranteed because it is so complex - it will be another landmark in the career of the 34-year-old Arbess, who has cut his teeth and made his reputation as a lawyer in helping the Czech Republic deal its way to the top of the inward investmentleague in eastern Europe.

"This has been a great place to do big deals," Arbess says, swivelling in his chair at his desk in one of Prague's best located offices, the Old Town Square spread invitingly below his window.

Arhess is managing partner in Prague of White & Case, the hlue chip US law firm, and bead of its global privatisation unit. He earned his elegant office and his stiff fees through a rare - and occasionally intimidating - mix of brilliance. arrogance and a conviction that what he is doing, extending the country's legal environment with every deal, is historic.

"He's relentless, just a brilliant negotiator with a total grasp of the

Danlel Arbess: relentless with a total grasp of the nuances of Czech law,

nuances" of Czech law, says a rival

A graduate of Osgoode Hall law school in Canada and of Harvard. Arbess took an interest in arms control issues and international affairs as a student, which persuaded him that the Soviet Union's military threat was exaggerated. A period working for White & Case in Stock-holm on US-Soviet joint ventures in the late 1980s convinced him he was right: Perestroika, then in full flow, was ahout to transform eastern

Arbess had visited Prague as the Velvet Revolution was heginning; when communism fell, he persuaded his deeply conservative firm that eastern Europe should be taken seriously as a market. He arrived in the Czech capital with the blessing of his bosses and with impeccable contacts, having met most of the current Czech govero-ment's senior ministers on their first visit to the US in 1990.

he Czech Republic has set the pace of east European economic liberalisation, and Arbess has advised the government on almost every noteworthy foreign investment deal over the past five years. These include Volkswagen's investment in Skoda: sboe king Tomas Bata's return to his native land; and a so far unsuccessful attempt to settle a trademark dispute with Anheuser Busch, the US hrewer, over Czech

Finding work was not easy initially. "I was sitting alone in Prague saying 'this is where it's going to happen'," he says. He was almost Other western law firms and banks soon followed, lured hy the goverment's radical reform plans, and

assignments flooded in. As the firm won more husiness in Prague and elsewhere in the region. White & Case was propelled to the top of Privatisation International's league table of legal advisers in 1992 and 1993. Arbess was rewarded by becoming a partner in the firm in mid-1992, just four and a half years after joining. The usual apprenticeship is eight years.

ls thoughtful hut supremely confident style and his formidable contacts have led some rivals to ask whether Arbess is not living a charmed life in the small and exclusive circle of power in Prague. He disagrees. Having visited hundreds of Czech companies while other advisers queued for husiness at the ministries, he is aware of the context in which he operates.

There is no sign that he is slowing down, but his recent luring of Jan Matejcek from Squire Sanders & Dempsey to become his partner in Prague could be a prelude to a move. He has advised the Russian government on privatisation and Moscow, where even bigger deals await, could be one destination. But so could New York or London, he says - and he plays down talk of an imminent move.

But the Czech market is maturing and the pioneering days are nearly over. "He's too good a lawyer for the bread and butter legal work that is needed here long term," says his friend Richard Wood, a leading Prague stockbroker.

First, however, there is the oil refineries deal, which has been in the pipeline for nearly two years. Despite the hard work involved imposed by an absolute deadline for agreement of June 30 - Arbess clearly loves the challenge. "There's so much fun to be had being a lawyer." he says, as he prepares for another sleepless night.



IBM gives Manzi new lease of life at Lotus

Jim Manzi, chairman and chief executive of Lotus, will stay on to run the personal computer software company under the \$3.5bn (£2.2bn) agreed hid announced vesterday by International Business Machines, writes Louise Kehoe in San Francisco. Manzi, 43, will become a senior vice president of IBM.

Known for his intellectual prowess, sharp wit and strong will, he has ruffled lots of feathers during his nine years at the head of Lotus. In particular, he has been an outspoken critic of Microsoft, the industry leader, and waged a hitter five-year legal battle with Borland International over copyright issues. Manzi has also been widely criticised for Lotus first quarter losses. "Generalissimo Jim Manzi

marches like an industry strongman, but seems unable to run a company that can make a profit . . . " says David Coursey. editor of PC Letter, an industry newsletter.

Manzi joined Lotus in 1983, one year after the company wes formed. Before that, as a consultant for McKinsey & Co, he was involved in bringing Lotus' first product, the 1-2-3 spreadsheet, to market. He was appointed chief executive in 1986 and elected chairman later the same year, upon the retirement of Lotus founder Mitch Kapour.

Afternoon tea with Khoo Teck Puat

Most afternoons a distinguished. rather frail Chinese gentleman in a white suit takes tea in the lounge of the Goodwood Hotel in Singapore, writes Kieran Cooke in Kuala Lumpur.

Khoo Teck Puat not only owns the Goodwood, one of the island republic's more refined botels. He is also one of Singapore's richest men, with a personal fortune conservatively estimated at US\$1.6hn. Last week Khoo, 78. expanded his hotel empire, paying \$104m for the Royal Garden Hotel next door to Kensington Palace, Princess Diana's London home.

The son of a rice trader, Khoo started his career at the Overseas Chinese Banking Corporation during the war, working his way to the top of what is now one of Singapore's big four financial institutions. Frustrated that he was

not made chief executive, he decamped to Malaysia, where he set np the Malayan Banking Corporation, now the country's biggest financial bouse.

Once again he quit after a boardroom quarrel, and turned his the old colonial banking community - Britain's Standard Chartered Bank, which has big interests in the region. When it faced a bostile bid from Lloyds Bank in 1986 it was Khoo, along with Sir Y.K. Pao, the shipping magnate, and Australian tycoon Robert Holmes & Court, who came to its rescue by buying a blocking

stake. His partners have both died since then and their stakes have been sold, hut Khoo, who owns 15 per cent of the Britisb bank, has stuck with his investment through good

times and had. At one stage he was negotiating to hny controlling stakes in Hongkong Land and Wheelock Marden, one of the territory's oldest trading houses. But then the buhhle burst and he ran into trophle with the National Bank of Brunei, which he had helped set no in the mid-60s. Khoo bad to step down from the Standard Chartered board and disappeared from the

corporate scene Apparently all is now settled and Khoo can take his tea in peace. His \$800m investment in Standard Chartered has proved the merit of being a long-term investor - albeit not always a welcome one.

Bernard Ashley's glamorous suitor

Georgette Mosbacher, the wife of former US commerce secretary Bob Mosbacher, takes pride in glamorous, even shocking attire. One can hardly see her donning a demure Laura Ashley print, writes Jill Davidson in Washington.

But, despite protestations from Sir Bernard Ashley that be has no intention of selling his 34 per cent stake in the company named for his late wife, the American husinesswoman and socialite is atill interested in acquiring the British fashion and furnishings group.

Mosbacher, who kicks off her curriculum vitae by claiming to represent what is possible in America", currently heads her own vehicle, Georgette Mosbacher Enterprises. As well as hawking The Exclusives by Georgette Mosbacher cosmetics line on cable shopping network QVC, she has been particularly in the public eye since the publication of her book Feminine Force, expounding Camille Paglia style feminism.

She is a Republican fundraiser. Her bushand is one of President Bush's oldest friends, and she is co-chairman of the Republican National Finance Committee.

Her office is staying quiet concerning any next move on the Laura Ashley front. But Sir Bernard should perhaps not underestimate her. "If you work hard, anything is possible", as that cv points out.



Oh, Kayl: Tommy Krasker, Eric Stern and Dawn Unshaw

MUSIC

Fans of Van Morrison, who have had to endure some startling fluctuations in the quality of his output over the years, will greet Days Like This (Exile) with a sense of relief. It is a welcome return to form, mellow and occasionally positively jaunty in mood; even the album's "bummers", "Underlying Depression" and "Melancholia". don't really convince that Morrison is anything but content with his lot. The album's highlight, "Ancient Highway", is eight minutes-plus of serene mysticism, worthy to stand alongside his very best work, which is saying something.

☐ Back in the mists of time, before New Age ambient music became fashionable, a keyboard player called Rick Wakeman composed long instrumental pieces which people mocked for sounding like inferior movie soundtracks. Well, cometh the hour and all that: The Seven Wonders of the World (President) is a series of melodic mood pieces based on the Hanging Gardens et al, touchingly dedicated to the former Yesman's family, and immaculately played and arranged on digital keyboards.

One of the Gershwins' most charming musicals, Oh, Kau!

(Nonesuch) is given a fresh account by, among others, Kurt Ollmann, Dawn Upshaw and the Orchestra of St Luke's, conducted by Eric Stern. It has one of the brothers' most enduring standards, "Someone to Watch Over Me".

☐ Shostakovich's magnificent Symphony Number 13 "Bahi Yar" was hardly given the most expansive review by nervous Soviet officials in Pravdo: "Yesterday the Thirteenth Symphony by Shostakovich was performed." It is a fierce, controversial work, vibrantly played here by the Chicago Symphony Orchestra conducted by Sir Georg Solti on Decca. with Sir Anthony Hopkins reading the Yevtushenko poems which inspired the composer.

■ In brief: Englebert Humperdinck's new album, Love Unchained (EMI) has the impudence to kick off with "Too Young", and doesn't get any better (or younger); Edgar Froese, of Tangerine Dream fame, combines old and new material on the donble Beyond the Storm (Virgin); Therapy? sound fashionably gloomy but a little passé on Infernal Love (A&M).

FILM/VIDEO

■ With Thomas Jefferson we go to Paris this week: a safe distance from which to view the other American releases which consist of Bad Boys, an inchoate hlack crime thriller, and Silent Fall, a duff murder mystery starring Richard

Dreyfuss and a corpse. Meanwhile, and more momentously: Did the father of the American Constitution and one-time ambassador to France (Nick Nolte) have a child-fathering affair with his black slave girl? Did he also love and leave a British painter'a wife (Greta Scacchi)? And did he wander round Paris witnessing everything from the early days of hot-air ballooning to the first stirrings of the French Revolution? Jefferson In Paris is visually sumptuous and historically intriguing. But the team of Ivory-Merchant-Prabhyala. purveyors of fine cinema to the gentry, spread their story a little

cannot be bored, even over 21/2

hours. But fewer plots and perspectives, and e more alert or irreverent focus, would have done

☐ The best new film - hold on to your credulity - is from Cambodia Rithy Panh's Rice People is a stern but strong rural drama, with a Hardyesque feel for the cruelties of nature. Its tale of failing harvests and stricken families may sound un-tempting as a night at the movies. But as the performances exert their power - especially Peng Panh as mad Mum – yon will do far less clock-watching here than m the week's rival films.

■ On video, interesting films rear up from the past. Cold Heaven is a middling-to-mesmeric Nicolas Roeg movie. Scenes From A Marriage is Bergman's coruscating drama of connubial hreakdown. And, at last there is Tarantino'a Reservoir Dogs.

too wide and their wit too thin. You Nigel Andrews

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Last week's proposed merger between EDS and AT Kearney therefore presents a rare dash of colour by bringing together a part of the aggressive US computer services company founded by Ross Perot, and a low-key but well-regarded independent consultancy which had its name on the same letterhead as McKinsey 50

The controversial transaction whereby EDS will acquire Kearney and merge its own unit into a new subsidiary trading under the Kearney name - creates one of the top 10 management consultancy groups in the world. But it also raises important issues about the emerging shape of the management consultancy industry over the next

Are integrated, one-stop "shops" - of which EDS/Kearney is by no means the only example - the dominant model for the late 1990s? Will there be a flurry of corporate activity as other big players reposition themselves to meet the new competition? If so, can the resulting alliances withstand those cultural problems which invariably arise when merging "people" businesses in general, and management consultancies in particular. Stories of staff at one newly "integrated" London firm using separate lifts in the same building may be sensationalist, but they are also salutary.

Management consultancies' lacklustre image notwithstanding. the sector's prospects look anything but dull. Most of the big six accountancy firms, for example, reported last week that their UK management consultancy arms had increased revenues by between 10 to 20 per cent last year, with Touche Ross, KPMG and Ernst and Young all recording close to 25 per cent growth. The research consultancy Gartner group - in a report published in March estimates that worldwide fee income from consultancy will increase from \$11.4bn (£7bn) in 1994 to \$21bn in 1999, equivalent to a compound annual growth rate of 13 per cent. Few other industries can

look forward to such a rosy future. The forces driving companies to hire management consultants who do everything from advising chief executives on strategy to installing and running a new computer system - come from several directions. Business uncertainty is perbaps the key factor as senior executives seek guidance on which way their industries are headed, how business processes should be structured, how to empower their employees, and how technology can he used to attain their business goals. "I've been through other cycles and in my experience the growth of our to business is greatest when the rate of change is greatest", says John Pendlehury, managing principal of EDS Management Consultancy Services Europe. Another factor favouring consultants - thanks to the "downsizing" and stringent cost cutting of recent years - Is the shortage of available talent inside companies to carry out these and the management consulting

Consultancy firms come in all

was creeping up behind me.

to learn how to maximise the bene-

Tim Dickson examines the changing face of consultancy following the planned controversial merger between EDS and AT Kearney

A blend of aggression and tradition

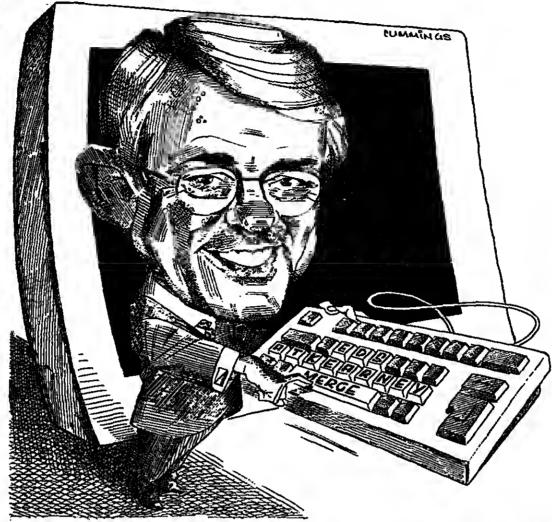
shapes and sizes multinational giants like market leader McKinsey to sole practitioner tiddlers - but in terms of fee income the hig six accountancy firms still dominate (see table). Built up on the back of their traditional accounting practices and extensive business networks in the 1980s, they all feature in Gartner's top 10. Andersen Consulting, Ernst & Young and Deloitte & Touche are

all in the top five.
"Traditional" firms - such as McKinsey, Boston Consulting Group, Booz Allen & Hamilton and AD Little - are generally hest known for their strategic expertise. But some of the fastest growing players in recent years, IBM and EDS among them, have spotted the the opportunity to consolidate client relationships hy selling "upstream" consultancy services on top of their core outsourcing and systems integration skills. Andersen and Gemini Consulting are also seen as particularly strong in "implementatioo".

EDS, founded by Perot in 1962 and now a quoted subsidiary of General Motors, makes most of its money running the computer networks of its clients more efficiently than they can. Like all companies in the technology industry it has had to take bets on which products its customers will want in the information age, and management consultancy is certainly one of them. Since mid-1993 the firm has aggressively hired 1,300 consultants, bought up seven smaller firms and, more or less from a standing start, has built up a business with an estimated \$200m in revenue. Kearney. however, is the big one.

By adding the Chicago-based partnership, wblcb effectively began life in 1929 when Andrew Thomas Kearney joined James O McKinsey & Company but only adopted its present name in 1946. EDS more than doubles its size. More to the point, bowever, it lends plausibility to its claim to be an Integrated player coupling information technology and process management capabilities with Kearney's more traditional consulting skills. This follows a trend in the market towards offering packaged solutions - from strategic advice all the way through systems design implementation - which can be seen in Geminl's successful "Transformation" product and to a lesser extent in McKinsey's Pentagon (with its emphasis on shareholder value). EDS, meanwhile, clearly has

bigger ambitions if the relative sizes of the information services industry husiness is anything to go by. "For every \$10 we earn from our



traditional activities we find there is about \$1 of consulting work." explains Pendlehury. Given EDS's more than 80,000 employees worldwide there is scope on this basis substantially to expand the newly enlarged management consultancy division, which, post

aggressive hiring, organic growth and selective acquisitions. Acquisitions will either be global as in the case of Kearney or more niched as with, for example, the purchase of Eurosept In France last year.'

Not surprisingly in a husiness

Leading worldwide management consultants for 1994

A	ovenue Sm	Share of market	Revo	enue Sm	Share o
McKinsey	1,400	12%	CSC	310	3%
Andersen Consulting	950	8%	Arthur D Little	305	39
Ernst & Young	880	8%	· AT Kearney	300	39
Deloitte & Toucha	605	5%	Bain	280	29
Germini Consulting .	560	5%	Mercer Management	220	2%
C&L	545	5 5%	EDS (MCS)	208	2%
BCG ·	440	4%	IBM ·	195	2%
Price Waterhouse	420	496	Other	3,000	26%
KPMG'	390			.,	
Booz Allen & Hamilt			Total	11,400	100%

Knowing your place is good therapy

Kearney, will have more than 2,300 stuffed

Source: Garmer Group estimates

~Insecure with consulting professionals or 3,500 overachievers" as one insider put it people in all. Adds Pendlebury: "We last week, sceptics are lining up to have three mathods for growing: pooh-pool the EDS strategy. Few ol at the table. The takeover of SG

them deny the value of the Kearney braod, its complementary "skill sets" (notably in logistics and manufacturing) and the additional geographic coverage which the

Chicago-based firm will bring. What they question, though, is whether vertical integration is an inevitable trend. "Consulting depends on the individuals involved," is one typical comment.
"In our experience clients are willing to make up their own minds, and more often than not each service is sold at a different level in the organisation to a decentralisation of decision making on this sort of thing than there was

Precedents elsewhere, bowever, suggest that mergers can create giant people businesses - and that this may be what clients want. Take stockbroking for instance, which has been radically restructured over the last 10 to 15 years, despite initial criticism that the big players were wildly overpaying for a place

Warburg by Swiss Bank last month was a vivid reminder that companies which are medium sized in global terms often struggle to find an independent role.

ft ia certainly possible that cultural differences will surface and defection of some key people or even teams cannot be ruled out. Kearney itself lost a large chunk of its financial services capability when more than 150 consulting professionals left to set up the Mitchell Madison Group last autumn. Kearney's shareholder base - 118 shareholding partners is narrower than many of its rivals and it is quite possible that some of those outside this circle who contribute to the firm's bottom line will be feeling disenfranchised.

It would be unwise, though, to under-estimate EDS's ability to make the Kearney marriage work. Not all precedents in the management consultancy sector point to blood on the walls, as the relatively smooth creation of Gemini from the merger of different firms can demonstrate.

Financial sweeteners, moreover, will belp ease the pain. Approximately 7m shares of GME stock (special shares issued by GM for the purchase of EDS), reflecting EDS's performance and worth \$296m at Friday's market price, have been vested over the long term for certain Kearney people joining the new entity. And, while EDS senior vice-president Gary Fernandes will serve as chairman of the board of the new subsidiary, its CEO will be current Kearney CEO Fred Steingraber. Kearney's headquarters will remain io Chicago, well away from Plano, Texas-based EDS, if not too far from General Motors' Detroit base.

Possibly of most significance is EDS's proveu ability to take onto its own books large numbers of people from corporate cultures alien to its own and absorb them successfully into its own ranks. Over the past 18 months in the UK, for instance, the Inland Revenue's 2,500-strong computer staff have ceased to be civil servants and joined the EDS payroll - a challenge which might cause upbeaval in most companies but which EDS apparently now takes in its stride. Of the 80,000 worldwide employees more than half have "emigrated" in this way.

This has been a powerful learning opportunity for a company whose newly bolstered subsidiary will be lecturing clients about empowerment, trust, team-based leadership and other appropriate buzzwords from the consultancy lexicon.

A bigger concern might be whether EDS is overpaying by offering \$300m in cash and contingency payments, not least given strong indications that the talks may have been going on for a couple of years while Kearney shareholders held out for more. The answer to that probably depends on whether optimism about the founded. Another deep recession would be harmful giveo that chief executives tend to be less future-focused in tough times. A talent shortage could yet dent the industry's expansion and failure to find a successor to the extremely lucrative business process re-engineering craze might also be damaging. Given consultants' notorious creativity in developing new products, that somehow seems

aromatherapy, mid-life crisis and

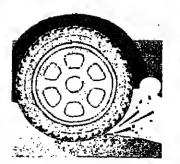
health club membership. But

whereas aromatherapy is presented

as a harmless - if inelfective -

outlet for the hero's neurosis, the

management course is something



FAST TRACK

MorphoSys

As conversation stoppers in Germany's financial community, the topics of venture capital and biotechnology would be hard to beat. Risk financing is scarce and genetic engineering often viewed scephically.

But the southern state of Bavaria likes biotechnology companies and is keen to finance them. One beneficiary is Mnnicb-based MorphoSys, which still has to reach the profits stage but has canght the companies due to its pioneering hiomedical research.

"Venture capital is difficult here, there's no question about says Simon Moroney, the chief executive. "But you can get a lot of soft money on a scale that's unprecedented anywbere." Thus it is embarking on a third financing round io which each D-Mark of vecture capital will be matched by two from state and federal

MorphoSys is researching drugs for cancer and other diseases by seeking to ophimise the properties of proteins and peptides tamino acid compounds), especially as antibodies. Some companies in the US and UK do this by working with transgenic animals such as pigs and sheep and others build up synthetic molecule libraries.

The unique MorphoSys method, stemming from the work of Andreas Plückthun, a German biochemistry professor is to select the best biochemical variants from a vast number and repeat them over and over again. In the case of cancer treatment, an antibody variant would be chosen which binds best to the malignant cell and be repeated constantly.

"It's molecular evolution,". says Alex Korda, joint managing director of Korda and Company, a UK venture capital company which invested in MorphoSys two years ago. Korda, the German federal government and Technostart, a Stuttgart-based technology finance operation, together put in DM2. Lin (£950,000).

A further DM3.7m was provided last year, with Atlas Venture Capital (Dutch-based with a German operation), Standard Life of the UK and Jafeo (part of Nomura Securities) also participating. It hopes a UK institution will participate in the new DM8m financing round.

"Sales don't exist at this stage," says Moroncy. "It's purely venture capital." All the money now goes into research and development. He hopes for "cash neutrality" in about two years. But adds: "The potential rewards are enormous".

The company is pinning its bopes on big drugs companies desire to put ont more research to specialised companies. MorphoSys is in advanced talks with a British group on development of a prophylactic for septic shock (associated with invasive surgery) and with a . German company on a diagnostics kit.

Moroney says the company's techniques are widely applicable "any disease is associated with some aberrant molecule". In about two years,

MorphoSys bopes to give its investors (who own 75 per cent) an exit through a share flotation possibly oo Easdaq, the anned European version of the US's Nasdaq - or a trade sale. It may then link up with another company, possibly in the US, togive it greater strength in the field of antibody engineering.

Andrew Fisher

LUCY

've found out why I feel so ficial energy flow of buildings, and tired all the time. It is not so too are estate agents. becausa my hahy is waking me at night. No, it is because That being the case, I asked Mr Spear for any tips to help me sell my house. He told me about one of the way my desk is organised. I lady who could not understand why have just been talking to William Spear, an expert in Feng Shin, the she was having such difficulty selling her desirable property until she ancient oriental science of "place-ment". He says that to sit, as I do, discovered that the pointed eave of with my back to the room with a neighbouring house was directed shelves above my bead is to ensure at her front door. This was very bad, as the sharp point represents fire, which melts metal. Once she that there will always be more work than I have energy to do. He says the situation would be remedied if I attached something to her eave to invested in a kidney shaped desk, deflect the fire, the property was sold at the asking price.
In my case, he said the sale would and replaced the shelves with a mirror, so that at least I could see who According to the publicity mate-

be clinched if I spent £20 or £30 on two round pot plants with red flowers and put them on the doorstep. rial sent to me by the Feng Shui Network International, Sir Richard Red, be said, is the right colour for bringing money into the house. I am prepared to give it a try, though it is touch and go in central London Greenbury, who must be the lesst faddy businessman in the world, believes in it. Companies including Virgin and the Hong Kong and which will happen first the money Shanghai Bank are apparently be sucked into the house, or the using Feng Shul to increase their profits. Architects are queueing up pots be stolen from the doorstep.

KELLAWAY What I would like to know about last week's RSA inquiry into Tomorrow'a Company is why it took two and a half years to produce. Even on the admission of the inquiry team, the report added little to the sum of buman knowledge:

attention to some neglected aspects of husiness success.

This surely could have been done in a fraction of the time. The interim findings, published in February after more than a year's deliberation, were almost exactly the same as the final ones. They contained the dreary new phrase "inclusive company"; they dis-

instead its value was in drawing

cussed the over-reliance on financial measures of success, and bleated about the dangers of adversarial relations between companies. l can only assume the generous timetable is what bappens when

you get quite so many hig cheeses together. Tomorrow's Company msy be one in which there is a happy partners bip between all stakebolders; today's company is one in which the hoss diary is very

The extraordinary amount of PR work done by the RSA may also have slowed progress somewhat. There was a video and a floppy disc to produce, and no fewer than nine

hig names quoted take the opportunity of reminding us that their companies are already living by the findings of the report. Which is statistically odd, as the whole thrust of the RSA's inquiry is that the vast majority of British companies are still doing quite the It is had enough for Tubby, a

pages of glowing endorsements to collect from everyone wbo is

anyone is business. The endorsements themselves are not

without interest, as nearly all the

middle-aged script writer, that Sally no longer wishes to be married to him. But what is intolerable is the fact that she, having just returned from a management course, is running their separation as if it were a husiness deal complete with agendas and memos. In David Lodge's new novel,

Therapy, the management course is seen as one of the essential reverts to form.

f used to think the main danger of management training was that the lessons tended not to stick: you spent a lot of money only to forget the self-improving hebaviour the minute the "facilitator's" back was turned. But now I see Lodge is right: the greater risk is that you take the lessons seriously and start trying to impose on top of your

more permicious.

If your boss, who usually ignores you, comes sidling up, all false smiles, and says what an excellent job you are doing, does it make your day? No: you wince, and conclude he has just come hack from a management course, and hope it won't he long before he

natural self some new behaviour

that does not suit you.

The Financial Times will publish

France

on September 27th

Following soon after the presidential elections this Survey will be an in-depth examination of the policies the new Government will pursue and present the business opportunities this country offers. The Survey will be read by an estimated 1.2 million people and will be an ideal advertising medium for all companies active on the French market. For advertising information please contact:

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FT Surveys

USINESS TRAVEL

Rise in airfares Greek air fares Increa between 8 per cent and 9 per cent in the second quarter of the year compared with the same

time last year, while discount economy fares in Portugal decreased 14 per cent, Scheherazade Dageshidu writes.

Some of the biggest fare to eastern Europe and the Independent States which increased between 4 per cent and 6 per cent. Amex said the upwards trend to continue as long as

Cholera alert

The former Soviet republic of Ukraine . reported 20 cholera cases last week. The first cases were reported on

Monday in Nikolayev, north of Odessa. The bealth ministry has blamed the outbreak on a decaying sewage system and the unwillingness of city authorities to stop dumping raw sewage into the Yuzhny Boug river, which supplies drinking ter for 3m Ukrainlans.

Two cases of cholera have een reported recently in Moscow, and people have been warned to buy only food with quality certificates and to avoid

Manila security rapped Security gaps at Manila's al airport are being tightened after the

United States said it would cancel flights from the Philippines over the issue Guffermo Cunanan, airport

general manager, said. The US Federal Aviation Authority was concerned . about the airport's ability to detect liquid explosive used in an attack by suspected iem extremists on a Philippine Airlines plan Delias/Fort Worth at the end of last December in which a

The US letter of May 4 the first week of August to

Non-stops dropped Delta Air Lines



said this week it will discontinue non-stop service on two routes from its

hub at Frankfurt later this year. it will end flights between Frankfurt and Prague in November, but will start a daily one-stop service from Practic to New York's Kennedy airport via Amsterdam, Delta also said it will discontinua its non-stop service between Frankfurt and

November. The airline said the discontinued non-stop service from Frankfurt to the two cities will eliminate 14 weekly flights at the Frankfurt hub.

Arrivais service

From Thursday United Airlines is offering a intary arrivals service at its nine Europea destinations.

The offer applies to full-fare first and Connoisseur (business) ngers and includes a light breakta showers, access to the telephone and fax mach es facilities.

rovided at United's Red Carpet Room-airport es or at hotels with erhick it has an

Strike threat

Two hundred Greek airport nurway workers pay and conditions are

due to stage a nationwide strike on Friday that is likely to delay. flights, a union leader said. On Saturday, the broader-Federation of Civil Aviation Unions, with 2,500 members, has ordered a 24-hour stoppage, to be followed by a 48-hour strike starting on June

 All SAS domestic and international flights were grounded on Friday after pay talks with pilots broke dow Scandinavian carrier said. .

Likely weather in the leading business centres

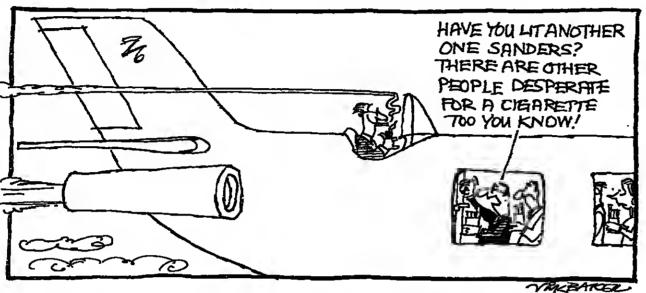
It is getting more difficult for smokers to light up in the air, says Christine Buckley

moking or non-smoking . . . the ques-tion that has for long been part and parcel of checking in is becoming increasingly redundant. And the familiar overbead nosmoking sign, lifelong sidekick of the "fasten seatbelt" light, may also soon be without any

work. Last month Virgin Atlantic and United Airlines joined the growing number of carriers slapping a total smoking ban on certain routes. Both extinguisbed smoking on all their transatlantic flights, Virgin becoming the first Europeanbased carrier to do so. The airline headed by Richard Branson - a former smoker and now member of Parents Against Tobacco - also included most of its Far East routes in the ban. But Virgin was forced to decide against a ban on its route between London and Tokyo because of the demand for smoking seats the Japanese are formidable opponents of smokeless flights. All flights into Japan allow smoking. Similarly, Air New Zealand's ban on smoking was recently extended to all flights from Europe - except to Japan and Korea. Virgin's flights hetween London and Athens

also allow smoking. Much of the industry is pursuing an ambitious goal - set by the International Civil Aviation Authority - of hanning smoking entirely in the air hy the end of next year. Although the authority has no power to impose a complete ban, many airlines are bapplly and

Last gasp for nicotine



quickly heeding the call. A fresh ban is announced virtually each month.

In March the Federation of Tour Operators added its weight, saying that its members, which operate 90 per cent of charter flights from the UK. declared that charter flights of six hours or less would be nonsmoking from November.

The airlines say the bans are prompted by market demand. although anecdotal evidence is strong that many travellers are determined to continue their nicotine habit airborne.

Earlier this year the Scottish Earl of Lovelace hecame a smoking cause celèbre when he took a 4,000-mile detour on a trip to Australia from Aberdeen so that he could bave a cigarette on the journey, the direct route with Qantas having outlawed smoking.

However, all is not lost for smokers, even in the US. where the habit is frowned on. Travellers are increasingly choosing to favour Dallas/Fort Worth international airport with their custom. They say they prefer to make onward

connections there where smoking facilities are greater than at a number of other airports and say they are happy to lose time changing at Dallas if it enables them to have a ciga-

But demand for smokeless flying can be seen, even if it is only in the form of court cases brought by disgruntled passengers against airlines who have failed to provide a reasonably smoke-free atmosphere. Last year British Airways paid an out-of-court settlement to a family who said that they had

to suffer passive smoking during a flight. And the number of actions brought hy passengers on the grounds that nonsmoking seating near the nicotine zone leads to discomfort is

The tobacco and smoking lobhies counter that this could be alleviated if the airlines changed cahin air more frequently. However, airlines say they change cahin frequently enough - British Airways says all the air on its flights is replaced at least every three minutes.

Forest, the UK pro-smoking group, also hlames some of the anti-smoking popularity upon the US's zealous campaigning. In the US, where the heath lohhy is strong and vocal, smoking is banned on all inter-nal flights shorter than six hours. Last year the health lobhy sought to extend its influence beyond its own airspace when the US House of Representatives voted to ban smoking on all incoming and outgoing flights. The move did not, however, find approval in

hile the airline industry's drive to make the skies clearer of smoke is another victory for the antismokers who are steadily driving the addicted from practically every public place, it can also prove a problem for those

who need to smoke. A guide to smoke-friendly air travel is published by Forest. but as the airlines are changing their provisions so rapidly, smokers should check for

And it is worth remembering that the diehard smokers will invariably need to ask the airline rather than expect to be told as a number of carriers have a practice of implementing a han without drawing

attention to it. If you don't the first you before travelling the first you flight is when you don't hear that familiar question at the check-in desk: smoking or non-

House of delights in Brussels



house of Victor Horta the great art nounow the Horta AN HOUR museum, one TOSPARE could easily spend an hour simply admiring the stair-

Horta used the iron and class of industrial architecture to dramatic effect in the domestic interior, At 25 rue Américaine, the stairwell's slender cast-iron columns open up the heart of the house. In fluid curves, golden tie-rods and girders rise throughout the building to support the glass and iron roof which floods the stairwell with yellow-tinted

There is harely a straight line to be seen, from the gently curving marble treads and scrolling metal banisters to the exuberant twists of the wooden handrail above.

Belle époque beauty is com-bined with all mod cons. An elegant radiator pillar, resemhling nothing so much as a col-umn of loosely stacked CDs, stands at the foot of the stairs. Cable for electricity is concealed within the tle-rods of the stairwell and glass lamps

in the form of flower bells hang from these delicate metal

Gleaming new materiais combine with the sumptuous and traditional. In the dining room, above bands of pink and white marhle and a floor of American ash and mosaic, there are walls and vaults of white enamelled hrick the finest marble would prohably have proved less costly.

Structural metalwork is exposed and ornamented, and sculpture integrated into the whole through a series of bas reliefs portraying the arts.

Horta designed every last detail down to the door handles and hinges. Needless to say, he designed his own furni-ture, too. The museum also bouses furniture made for various clients' houses, along with architectural models and

Admirers of that other Belgian hero, Tintin, may prefer to visit another Horta huilding, the Magasins Waucquez department store at 20 rue des Sables, now the Centre Belge de la Bande Dessinée and devoted to the history of the Belgian comic strip.

Susan Moore

THE AMERICAN EXPRESS "I'VE JUST 8 PEUT

10 nights in the wilderness and I don't have

my card with me, can you help me get

a shower and a real bed" SERVICES





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FUTURES MEDIA

Porn as a guide to business potential



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Ö2 80

Tim

nology haa potential One way of decid-Jackson ing might be called Jackson's Laws of Media Futures. First law: if pornographers are among the early adopters of

or not a new

media tech-

the new technology, then it has definite commercial possibilities. Second law: if there is a public backlash against pornographic use of the new technology, then its future is Looking back over new

media that have become mainstream, one can see plenty of instances of these laws at work. The history of photography is one; premium-rate telephone service is another; the VCR is a third. So how does the Internet fit in?

Until a month ago, this new technology seemed to be a counter example. Its acceptance as an important new technology was beyond doubt. Its use for the transmission of huge quantities of sex-related material was obvinus to the most casual observer. And vet nobody seemed to take much notice. Tha most serious attempt to curb Internet pornography had been easily out-

manoeuvred in Congress. This year, things are different. Senator James Exon, a Democrat from Nebraska, is back, demanding more stri-

New delivery

- old pictures

Collection, one of the largest picture archives in the world,

The Hulton Deutsch

is offering digital

transmission of its 15m

The images can be

Macs over an ISDN line.

4-Sight ISDN Manager

images, as well as its more

transmitted direct to Apple

Recipients will also require

software. E-mail requests:

100530,101@CompuServe.com

traditional delivery methods.

It is always dently than ever that the Inter-net should be made "safe for children". His proposals have been appended to the telecommunications deregulation law currently before the Senate.

Political hostility towards media sex and violence is growing, as Senator Robert Dole's recent statements show. Internet pressure groups are taking the Exon threat seriously: everywhere one looks, electronic signatures against the Senator's proposals are being collected.

The trouble with the anti-Exon campaign is that some of its members take the word "cyberspace" too literally. They act as if the online world should be independent of ground control.

A good example of this men-tality is the case of Jake Baker, a student at the University of Michigan. Baker posted a story on an Internet newsgroup (dis cussion forum) in which he described, in the first person, how he and another man had raped, tortured and killed a young woman who happened to have the same name as one of his college classmates. Had Baker typed bis fantasy on paper and handed out copies in the university cafeteria, his politically correct fellow students would probably bave cheered when the FBI came to take him away. But because his chosen medium was electronic, numerous groups have sprung to Baker's defence.

With enemies like that, Sena-

tor Exon hardly needs friends.

The senator's proposals

express an underlying feeling that must be right. A text that it is illegal to print in a book should not be tolerated just because it is typed at a computer keyboard and posted on an Internet newsgroup. Words that are illegal to say on the telephone or in a private letter ahould not acquire immunity when sent by e-mail.

What is more, there is a case for raising the penalties for breaking the law over the Internet. The anonymity of the Internet encourages people to type things that they would never dream of writing down or saying to someone's face just as the partial anonymity of the telephone tempts people to be much ruder than they dare to be at meetings.

o Senator Exon's wish to raise the stakes to a \$100,000 (£63,700) fine and two sense. But the senator wants to go further still. The first draft of his proposed law tried to pin responsibility for illegal material not just on its authors, but also on the companies that distribute it from bulletin boards to online services, and from Internet providers to telaphone

This approach betraved a lack of understanding of how the online world works. For the Internet is not one medium with a controlling editor and publisher, but many different media, each with a different degree of editorial control. The bill's first draft was therefore



tected without restraining

adults' access. An enterprising wife-and-husband team in Cal-

ifornia has launched a new

software package called Surf-

Watch, which keeps track of

several hundred inappropriate newsgroups and allows parents

or teachers to restrict Internet

access to them, and to update

the list of forbidden fruit

monthly. Mac users can buy it

now; a Windows version is due

if governments wish to legis-

late, they could impose on Internet providers similar obli-

gations to the proprietors of

video or magazine shops. One

possibility might be to give

providers an obligation to ask

their customers whether they

are over 18, and to disable

the accounts of minors to

prevent access to adult

As other solutions are found,

a Third Law of Media Futures

will come into play. That law

is: if the fuss over the use of

new technology for pornogra-

phy has died down, then the

technology is ready for mass

At that stage, more mundane

instance, people at work are

using the Internet to waste

company time. A recent cover

magazine asked American

computing managers: "Are

your workers becoming Net

potatoes?" Inside, a poll

revealed that 95 per cent of

employers said their staff used

the internet for non-work pur-

poses, and 32 per cent believed

their staff did so for more than

an hour a day. There, rather

commercialisation.

next month.

material.

rightly shouted down as ludicrous, since it would have forced Internet providers who wanted to keep their bands clean either to close down altogether or to censor everything posted by their clients, incloding private electronic mail.

The senator's subsequent attempts to amend this provislon have served merely to confuse the matter. But the Exon proposals suffer from a more fundamental flaw: they fail to take account of the legal remedies already available against some material on the Internet. Federal and state laws in the US already prohibit the promotion, interstale transportation, or transmission by telephone of obscene material. There are also stringent rules on pornographic pictures of minors, even the possession of

which can be illegal.
If these existing restrictions were enforced, the range of offensive material on the Internet would be significantly narrowed. Yet rather than urging more comprehensive enforcement, the Exoo scheme is to broaden the definition of what is forbidden.

As well as obscenity, which is not protected under the First Amendment of the US Constitution, Exon wants to outlaw material that is "lewd, lascivious, filthy or indecent". This wider definition could cover all kinds of material, from Lady Chatterley's Lover to the screenplay of the latest Taran-

The best argument for such restrictions is that Internet hype has attracted attention from children, and given them access to sexual material they would find hard to nbtain on But children can be pro-

than electronic porn, lies the real threat. Tim Jackson can be reached at: Ljackson@pop3.demon.co.uk.

Education and the information society The G7 countries must act to unite the world as

technologies converge, writes Carlo De Benedetti

he electronic and digital revolution is fuelling a conver-gence between computers, electronics, telecommunications and media that is already highly visible in the marketplace. This was reflected at a meeting I chaired in Washington recently. It was attended by business leaders from computer, telecoms and media companies in the seven major industrialised countries. And, for the first time, they called for government action to promote construction of the global information society. The meeting made two clear recommendations that will be sent to delegates at this week's G7 summit in Halifax, Nova Sco-

First: action must be taken as soon as possible to accelerate full liberalisation of telecoms infrastructure and services in all G7 countries by no later than January 1 1998, and to ensure that independent regulatory authorities are established and empowered. Second: global trade should

be promoted by opening up basic telecoms services and infrastructures. The World Trade Organisation should by next April negotiate a successful and balanced accord while agreeing to remove all barriers to trade in the telecoms and information technology sec-

The business leaders are also urging governments to encourage the production of internaconcerns will take over. For tional operating standards, as well as guidelines for privacy, security and the protection of data and intellectual property story in Information Week rights.

It was recommended that implementation of global pilot projects should be accelerated. In particular, special attention must be paid to education. This is the only way to ensure that the demand for the goods and services of the information society rapidly achieves tha critical mass needed to create self-sustaining growth. In the information society,

consumption depends on knowledgeable consumers. If the intelligence and knowledge of potential users is limited it puts a brake on demand. The foundation of the information society, therefore, is widespread intelligence: intelligence in products, in business. in the public sector, and among consumers. This is the primary reason why we are urging governments to take action to improve education

A second reason stems from the fact that digitalisation and the growing use of computers are creating new forms of illiteracy and poverty, even in the most advanced societies. People who lack keyboard skills or do not know how to access information on a CD-Rom run the risk of not having the knowledge they need to do their job. Moreover, computer illiteracy affects every social group: it is not confined to the poorest social classes.

Another danger is that new forms of discrimination may emerge between countries equipped to enter this information-and-knowledge society, and countries that cannot. In Africa, for instance, one out of two people has never used a telephone; but then, Africa has fewer telephones than New

iscrimination at social national levels between "haves" and "have nots" must be avoided. In principle, everyone should have the chance to be a "have" and to take an active part, irrespec-tive of cultural background, in the creation of the information

This is why we have stressed the importance of education. Japan's business leaders have decided to organise a Junior Information Society Summit to offer young people and children all over the world an opportunity to discuss and draw np proposals for the development of the information society. Young people must be accorded this right

because we are laying the

foundations today for the society they will lead tomorrow, and because they often display greater insight and creativity in seeking solutions to the issues of new technology.

Edith Cresson, the European commissioner for research and human resources, intends to launch a special European programme of education and training. I trust that it will meet with approval at the European summit in Cannes at the and of this month.

oday - and not just in Europe - the education field lags seriously behind other areas in the use of new technology. Computers, modems. CD-Roms. networking and so on are a part of daily life in the corporate world and in many public sector bodies. But in schools, where they could be of extraor dinary value as teaching aids,

they are rarely used. This is not a question of financial resources. It is a question of policy. Europe spends more than \$350bn (£223bn) on education (5.5 per cent of GDP) - not much more than the \$250bn it spends just to support the unemployed. More should be spent on education which could lead to job creation. Knowledge and intelligence are the main assets of job-seekers. These assets should be continually enhanced and renewed through permanent education

and training programmes. All these initiatives take time, but business and, above all, governments must realise how important and urgent is the need for committed action.

The information society opens up the prospect of new wealth and broader market participation. When markets grow, democracy grows. But if the transition is not correctly guided, the information society will be mis-shapen and will fuel new conflict and new forms of discrimination or cultural subordination. Carlo De Benedetti is chairman of Olivetti.

It's the game of the name

Diane Summers reports on registering Internet addresses

sportswear manu-facturer, recently came to register its name on the Internet, it found someone else had got

The "domain" name Puma which would have allowed internet users immediately to locate the company's address in cyberspace - had already. been appropriated by the Power Users' Macintosh Association. Not unreasonably, the association bad decided the acronym was snappier for users to type in than the full version of its name, and Puma will now have to settle for a second best, such as Pumas-

The case has prompted Puma's advertising agency, London-based KHBB, part of the Cordiant group, to contact all its clients suggesting they register domain names immediately, whether or not they have any current plans to use the Internet to provide information on their products and

services. US through a body called inter-NIC - the Internet Network Information Center - and in the UK through the UK namcommittee made up of the

main service providers, which includes Demon, and Pipex.
These bodies check the Internet to ensure a name is not already in use and weed out any obvious attempts by companies to register the names of

their rivals, before allowing registration. But to register a name, companies must, at the same time, sign up to the internet - a step some organisations do not yet want to take. KHBB, and a few other agencies which have full Internet connections, are offering to register names on cli-ents' behalf for a flat fee of £250. This includes consulting with the company on the most appropriate domain names, checking nn the internet that the name decided on has not already been taken, and registering with the appropriate authority in the US or UK. The names continue to be owned by the company, but are "held"

by the agency until the point when the decision is made to start using the Internet. According to Simon Law, the account planner at KHBB who has been most closely involved with the domain names issue: "As more and more companies go on to the Net, it gets increasingly likely that another company will have REGISTERING HIMSELF AS ICI ON THE NET SEEMED A GREAT DEA UNTIL HE GOT ICI'S TAX BILL



registered the name you want. You need to use a minimum. number of letters in your address to make it as memorable and professional as possibls. Most peopla are trying to keep to eight letters or less, so there could be a lot of overlap. Over the next year, as a mass of companies go on to the Internet, it will get even more difficult to get your name reg-

As organisations resort to sacond-choice names, he believes there will be added kudos in having a perfect domain name. "It will show you were one of the earlier companies on the Internet and you're a forward-thinking organisation," be says

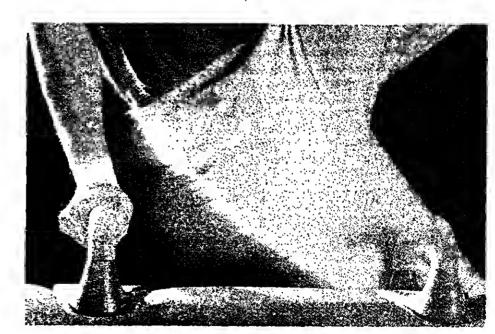
Moving to register a name as soon as possible will also cut down on the possibility of fraud, hostile action by competitors and individuals attempting to make money out of registering corporations' names and then trying to sell them back, he says.

The latter was a particularly hot issue in the US last year after Joshua Quittner, a jour-nalist writing in the computer magazine Wired, managed to bag the McDonald'a name from the hamburger giant. Following a flurry of activity by lawyers, McDonald's now has its domain name back, but this and other cases prompted "a bit of a gold rush at the end of last year. People were thinking 'this will be my million. If a company wants its name back they'll have to pay me'." says

No one knows how much has enterprising individuals - like almost everything about the Internet, the legal picture is hazy and settlements have been out of court. Simon Law's Internet address

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Make a date with news you want

Stephen McGookin describes Individual's customised service UK will be available free of

osi Amram is fond of romanticising about his company. "Think of us as a computerised dating service," says the president and chief executive of Individual Inc., the Massachusetts-based company he founded in 1989. Individual matches readers

with information by connecting subscribers to material from 500 electronic news providers, which use exclusivelylicensed Smart (system for manipulation and retrieval of text) technology developed by Gerard Salton at Cornell Uni-

The company receives between 15,000 and 20,000 articles a day from wire services, trade periodicals, newspapers, stock markets and government sources. These are categorised into topics and sent to those customers whose news profiles they match.

daily customised news service aimed at corporations. It costs \$5,000 (£3,185) a month with LAN (local area network) distribution. HeadsUp and iNews are more personal naws services for executives, costing from \$40 a month. NewsPage is a World Wide Web service on the Internet (www.newspage.com). It is free, although

it is set to charge for full-text

articles from July 17. First! stories are delivered in full text via fax, e-mail or as a feed for groupware computer platforms. To ensure that the corporate user profiles remain relevant, First! uses a system called Relevance Feedback, where the reader uses a grading process to label the articles received according to their usefulness. This information is then fed back into the system so that SMART learns about

Individual has a range of the shifting interests of differ-products. One called First! is a ent readers.

In HeadsUp and iNews, subscribers create their profiles by choosing topics from aach day's news briefs. Full-text articles can then be chosen and downloaded.

rom September 1, the company is introduc ing NewsPage UK · (www.newspage.co.uk) which is focused for readers in Britain and Europe. It provide faster access times than the current worldwide service.

NewsPage has tapped into a potentially lucrative source by putting a sponsor's banners at the opening of each topic category. Readers click on the banner to link to further information. Around 100 of the 1,000 topic slots on the UK version of NewsPage have already been

articles. The value to content providers of participating - aside from the royalty payments

allowing them to leverage their fixed editorial investment - is that they can gain access to incremental readers not in their core market and build their reputation as a news provider, as well as gaining free market research on potential customers. "News is becoming a com-

charge until December 1. Then

story briefs will be available

free, with charges levied

for downloads of full-text

modity," says Amram. "We're not trying to replace core sources that you should be subscribing to anyway; what we do is provide relevant articles from sources you might not otherwise see, nr The company says NewsPage subscribe to."



SPORT/ARCHITECTURE

Only 24 Hours from the boardroom

Bscher will click shut his hriefcase and leave Oppenheum Bank's office in Cologne for the weekend. Not just any weekend, for Bscher, co-owner of the bank, is going to Le Mans, along with a quarter of a million other motor racing fans. They will be spec-

tating. Bscher will be driving.
And he will be up against other top businessmen, such as Lindsay Owen-Jones, chief executive of French perfume group L'Oreal, and Moody Fayed, beir to the Harrods

These amateur racers will lap the 24-Hour French circuit at speeds of up to 350kph. ber's McLaren F1 GTR cost him \$1m. A season campaigning around Europe in the GT Global Endurance series costs close to another seven figures. Serious mooey for a Boys Own fantasy.

So does Bscher bave any chance of winning at Le Mans? "if the car bolds together we

ext Fridey ing in the first ten," he says, banker Thomes after giving the matter serious consideration.

This 43-year-old father of two small children is no playboy. acting on whim and hravado. Everything in his team is done with due diligence or not at all. English engineer David Price runs the Bscher car. "There's still room for the amateur." believes Price, who has 30 years of experience in car racing, including a good deal of time in Formula One. "We're leading the championship with a driver who spends all week running a bank. So we must be doing something right."

Team Bscher is run exactly like the Porsche, Ferrari and Jaguar works equipes with which it must compete. The owner bas a professional co-driver, John Neilsen of Denmark, with whom be must accept the roles of hoth employer and junior partner. Tm quite happy to see John in a different class from myself. As an amateur you will never be as outick as a professional. On a two-minute circuit he is as much as a second a lap fas-



WHEATLEY

ter than myself." explains Bscber. "John drives as much as possible. Exactly how much depends on pit stops. But at Le Mans I will drive maybe seven or eight hours out of 24. However, we have analysed our previous races and know that we have never dropped B place due to my driving," Bscher

Neilsen and his patron came together under the sign of Maserati. Bscher has collected the Italian marque for years, and raced these classics in historic

car series. In 1992 the factory Bscher. "The safety aspect is produced a "race spec" supercar, which Bscher coveted for his own. Maserati told the would-be buyer that he had to race the car or it was no sale. In the following year's Maser-Bti series. Neilsen won and Bscher came second.

McLaren's route to building personal racing machines for wealthy individuals was one of serendipity rather than strategy. fts chief engineer Gordon Murray had originally conceived the F1 as the ultimate rond car - a market where companies such as Ferrari. Bugatti and Lamborghini had shown that demand was scarcely price-sensitive. So far seven enthusiasts have written \$1m cheques.

In recent years, there has been a noticeable, and much-criticised, influx of young drivers into the lower echelons of F1. Fabulously rich Brazilian. Italian or Japanese families know that a fat wallet can buy a drive in B struggling team. ft is not an arena for captains of industry. "Nothing could persuade me to do F1." says

too small, the costs too high. It would not be compatible with my husiness life." This incompatibility is not

just to do with time sway from work. Bscher's reasoning is more subtle than holiday rotas. Colleagues and clients want to talk about the McLaren and sports car racing all the time. It has made him a minor celebrity in German banking circles, If he were to aim at FI, Bscher would probably be seen as middle-aged executive indulging a menopausal fantasy. And, anyway, the sports car world is so much more civilised.

"People still talk to one another in this end of the sport. You go into each other's garages and have B chat and a laugh," explains David Price. "That went out of the window in F1 years ago. And it isports car racing) is still affordable, compared with \$20m a season for a competitive F1 car."

Of course, such things are relative. If the Bscher/Neilsen car bas a crash at Le Mans a replacement door will cost \$14,000. A hlown engine would



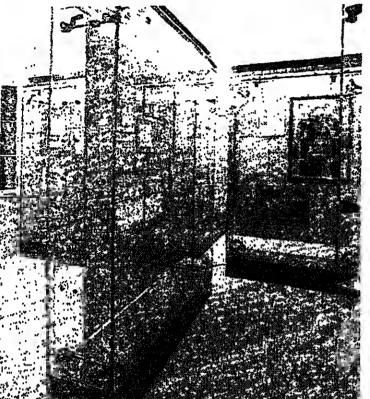
Bscher's \$1m McLaren F1 GTR: a replacement door would cost \$14,000, a blown engine \$180,000

be around \$180,000, although so far the motors have stood up to the factory promise of one per

Bscher chooses not to reveal his annual budget, saying only that it is "very, very expensive. Without the sponsorship of West cigarettes for maintainance costs, I could not do this,"

For professionals, servicing the amateur dream can be tricky. David Price says: "Tve been involved in the past with rich people who want to go racing. Once they realise how much money these things can gobble up they discover they're not as rich as you think they

worth of equipment and you can't look after it in your gar-den shed. Thomas la totally realistic about that. He realises that we put a lot of effort in and expect him to do the same. He arrives when we tell him to, does the job, and goes back to the bank. It's as simple as that." With six



Eve Jiricua chose a cruciform arrangement of glass show cases

Gem of an exhibition in Lincoln's Inn

New gallery adds another dimension to the Sir John Soane Museum, writes Colin Amery

or anyone even remotely interested in architecture a visit to the Sir John Soane Museum in London's Lincoln's Inn Fields ha always been an eye opener and an insight into a highly creative mind. But a completely new dimension has been added with the opening of a small exhibition gallery which enables the museum to put on regular small displays of its incredible riches.

Sir John Soane died in 1837 and left his house, office and collections to the nation. He huilt three houses in Lincoln's Inn. Two form the museum and one day the third will

be re-acquired as a study centre. On the ground floor of No. 12. Soane had a dining room and a hreakfast parlour, These two rooms have been added to the tour of the museum for the first time. The breakfast parlour has been restored, almost as it was - with a painted ceiling of trellis and leaves. The restoration is based upon an accurate watercolour painted in 1789 by

Joseph Gandy. It was decided to make the former

dining room into a small exhibition gallery - a hrave decision because there are B lot of sensitive purists around who resist all change and are unaware of the public thirst for architectural knowledge.

Even hraver was to commission Eva Jiricna - hranded "high tech" - to design the new room. She is best known for her stylish shop designs and restaurants. The gallery was paid for hy property com-pany MEPC, which donated £1m for the restoration of the museum and the new gallery, providing the Government matched the donation,

Jiricna evolved a brilliant solution which is as immaculate and careful in its design as anything Soane would have done himself. It is also highly original and very beautiful.

Visitors approach the new gallery through a link passage way which was designed by the museum's restoration architect, Julian Harran, This is an ingenious series of small stepped spaces with some intricate and ingeniously lighted small show cases lo display some of Soane's small objects. It is entirely in keeping with the intricacy of the whole museum, which is throughout domestic, small scale and crowded with an intense display of works of

The new Soane Gallery is a very important London attraction because it is one of the very few galleries devoted to architecture. Jiricna was faced with a very difficult design challenge as well as a lot of understandable pervouspess about doing anything at all in these sacred rooms. She chose to place a cruciform arrangement of glass show cases in the centre of the room - leaving the Soane walls untouched.

These cases had to be designed to the highest conservation standards and have perfect lighting and humidity controls. They also had to be easily accessible for the changing of exhibitions and, in such a small space, not be subjected to distracting reflections.

It was right to launch the gallery with a display of some of the cream of the collection, ft is not generally known that Soane's collection amounts to some 30,000 drawings,

including 54 volumes of drawings hy the Adam family. There are drawings by Piranesi, Clerisseau, Nash, Wren, Hawksmoor, Kent, Chambers and Dance, There are Italian Renaissance drawings as well, of course, the most remarkahle and complete collection of Soane's own works.

This perfect little exhibition is a microcosm of the collection. There are only 45 drawings to look at but they are so well shown that there is time to enjoy each one completely. The selection explores Soane's collecting instincts while also revealing some of the sources of his inspiration. The "North Italian Album" is a 16th century source book of designs for artists and craftsman to use - probably goldsmiths and cahlnet makers. This theme continues in the lively drawings by Grinling Gibbons of his designs for decora-tive works for the royal apartments

at Hampton Court Palace. How fascinating is the design hy Sir Christopher Wren for the Royal Hospital for Seamen, which appears to block or remove Inigo Jones's Queen's House from the composition. It is a very French design and is well contrasted in the exhibition with the more mobile design in Hawksmoor's hand for the Great Hall at Greenwich.

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To see pages from Sir Joshua Reynolds's sketch book reflects both the interest of that artist in his Italian sources and shows how closely Soane and Reynolds were involved in the infant Royal Acad-

One of the best Rohert Adam drawings shows a full-size coloured drawing of a table that was designed for the architect's own use in his rooms at the Adelphi.

The architect George Dance emerges as something of an unsung hero from this show, he was a distinguished artist as well as an architect. His watercolour of a dining room has a lively group of diners at the table.

This opening exhibition will run until September at 13, Lincoln's Inn Fields, London, WC2, and is open Tuesday to Saturday, 10am to 5pm. On the first Tuesday of each month it is open in the evening from 6pm

CONTRACTS & TENDERS

INVITATION FOR BIDS

Date of Issuance:,1995

The Republic of Turkey, Ministry of Transportations, General Directorate of Radiocommunications intends to acquire the National Monitoring System Project which shall be composed of National Monitoring System (NMS) and National Frequency Management System (NFMS) components on the basis of toreign credit which is to be

The General Directorate of Radiocommunications (TGM), invites bids from etigible joint ventured bidders in the sealed envelopes for the Turnkey construction of: National Monitoring System Project, at the location and configurations as specified in the Bidding Documents.

nation and inspect the bidding documents tree of charge at office of: Interested bidders may obtain further Inform T C ULASTIRMA BAKANLIĞI TELSIZ GENEL MÜDÜRLÜĞÜ Ulastırma Bakanlığı Sitesi L Blok 06510 Emek-ANKARA/TÜRKEY

Telex No: 44371 TGM-TR Fax No: 90 (312) 221 32 26

A complete set of Bidding Documents may be purchased by any interested Bidder on the submission of written application to the above and upon payment of a non-refundable lee of: 100.000.000. Turkish Liras, from the date of 12 June 1995. Only those Bidders or their representatives who have purchased the Aldding Documents may Bids must be delivered to the Bidding Committee at the above address before 12 October 1995 of 14,00h in

Envelope A "Documentary Evidence Unpriced" (Sealed) shall include Envelope A "Documentary evidence unpriced" (seared shall treated shall treated a status, book of authorized signature, piece of registretion and principle place of business of the joint venture pertners, technical/administrative and financial qualifications of Bidders and the Bid Bond for the amount at least then 3% of the Bidders Commercial Proposal and the other evidence required by the Bidding Documents.

Envelope B "Technical Proposal Unpriced" (Sealed) shall include Unpriced Technical Proposal and the other documents as required by the Bidding Documents.

MINISTRY OF ECONOMY AND PUBLIC WORKS

AND SERVICES

TRANSPORT SECRETARIAT

METROPOLITANOS S.A.

PUBLIC TENDER TO PERFORM A STUDY

OF VIABILITY OF AN INTEGRAL SYSTEM
OF TRANSPORTATION FOR THE METROPOLITAN
AREA OF BUENOS AIRES

It is hereby called to a Public Offer of Background and Methodology with a fixed price for the hiring of a multiple discipline Professional Feam or Consulting Companyies, in order to perform a VIABILITY STUOY OF AN INTEGRAL SYSTEM OF TRANSPORTATION FOR THE METROPOLITAN AREA OF BUENOS

AIRES, concerning specific ideas, strategies and proposals for

the development of alternative and complementary means

attending the use of public properties as well as the corresponding self-financing mechanisms for median and long term, with achievements in stages, comprising the next thirty years.

Proposal Opening Date: August 1st, 1995 -

Opening Time: 01:00 PM
Opening Place: Bartolome Mitre 2815 - 1° plso. Of. 102 -

Buenos Aires - Argentina.
Inquiries and Purchase of Instructions to Bidders:

FE.ME.S.A. - Bartolome Mitre 2815 17 piso. Of. 118 -C.P. 1201 - Bucnos Aires - Argentina

FAX: 1541) 865-4 140
Total Prize of the Study: \$ 505,000.00 (VAT included)
Registering Fee: \$ 1,767.50

INTERRATIONAL PUBLIC TENDER Nº 777

FERROCARRILES

Envelope C "Commercial Proposal" (Sealed) shall include Commercial Proposal including financial proposal and the other documents as required by the Bidding . All these three enveloped shall be submitted in a sealed outer envelope. Bids shall be opened in the witness of the Bidders or their representatives on 12 October 1995 at 15,00h in the office of the TGM adding Committee located at Ulastirma Sekanligi Sitesi L Slok 08510 Emek

In case of any change, in or declaration as a holiday of the Bid Submission and Bid Opening Dates, for any on the succeeding working day and hours and the same place shall apply.

TGM is not bound by the State Bidding Law Number 2886 and may invite the Bidders to submit the Secondary Commercial Proposal and to bargain, if sequired, TGM reserves the right to accept or reject any Bid, and to annul the Bidding Process and reject all Bids, at eny time prior to Award of Contact, without thereby incurring any liability to the affected Bidder or Bidders or any obligation to inform the affected Bidder or Bidders of the grounds

COMPANY NOTICES

Quebec Central Railway Company Capital Stock n preparation for the payment of the build early dividend due July 15 1995 on th bove slock, the transfer books will be closed at 3,30pm, on June 23 1995 and will e re-opened on July 3 1995.

O.R.F.cast Assistant Secretary

62-65 Trafalgar Square, London WC2N 5DY.

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SCOTTISH EQUITABLE POLICYHOLDERS TRUST LIMITED

NOTICE IS HEREBY GIVEN that the second ANNUAL GENERAL MEETING of Qualitying Policyholders of Scottish Equitable Policyholders Trust Lamited will be tield at 25 St Andrew Square, Edinburgh on Monday 19 June 1995 at 9,30 am for the

or the Report on the activities of the Company for the year ended 31

To approve the aggregate ordinary remuneration to be made available to the Directors of the Company To reappoint Oirectors of the Company retiring by rotation at the Meebing, (a) Eric / Cuthbertson WS
(b) Peter Stormonth Darler

29 St Andrew Square, Edinburgh EH2 IYF

(c) Hamish M Inglis CA

Any Qualifying Policyholder who is entitled to attend and vote is entitled to appoint another person (who need not be a Qualifying Policyholder) as his proxy to attend and vote assisted of him. A proxy is entitled to vote but is not entitled to speak except in demand or again in demandance and Proxy for the proxy which in the demand of the proxy and Proxy for the proxy that in the demand of the proxy that the proxy thas the proxy that the proxy that the proxy that the proxy that th in in demanding a poll. Proxy forms, which can be obtained from the relary (at the following address), must be deposited at 25 St Andres Square, Edinburgh before 9.30 am on L' lune 1995. Every Qualifying Policyholder whose policy, as at the communicement of the Meeting

is in force, and has been at least one year in force, is entitled to attend and vote at "Qualifying Tolkeyholders" for the purposes of this Notice has the meaning set out in the trust deed executed by the Company on 31 December 1993 and extends to (a) any person who was a member of Scottish Equitable Life Assurance Society and

whose policy has been transferred to Scottish Equitable ple (b) any person who has a with profits policy with Scottah Equitable ple where the policy has been linked to the With Profits Sub-Fund for a communuous period of all least one year as at the communicament of the Meeting.

quartes in respect of the qualification of policyholders to attend and core at the eding should be addressed to the Company Secretary (at the address specified

By Order of the Board PHGrace Managing Directo



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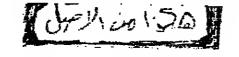
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The biennia LIFT (London International Trestival of Theatre, starts this week and continues until July 9. This year's events come from Algeria, Australia, Boil, Brazil, Cariada, China, France, Germany, India. Japan, Mexico, North Africa, Tunisia, and the US. Among the most prominent companies is the Market Theatre of two shows: "Jozi Jozi" (left) at the Theatre Royal Stratford East (opening today), and "The Suit" at the Tricycle Theatre ine so. at the Meyele fileare (opening on Thursday).

Oomedian Julian Clary (far right) opens in Genet's "Splendid's" at the Lync Theatre Hammersmith on Thursday.

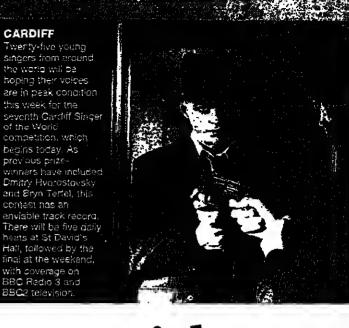
SAINT LOUIS Opera Theatre of Soint Louis gives the world bremiere on Thursday of a new opera by American composer Stephen Paelus Entitled "The Crossing", it tells the story of a nuclear experiments going on around her. Richard directs, and Sheri

HAMBURG The Kunstnalle has organised P.03550 drawings, from the collection a cost of DM10m. of his paughter Marina. Ali date from the summer and 1928, and are taken from sketchbooks in ideas for his

The Bulgarian-born artist Christo will fulfill one of his most cherished wishes on Saturday when he starts to arape the Berlin Reichstag in cloth. Christo describes the building as a steeping beauty which needs to be awakened, it will remained covered for two weeks, at sculptures, Th show opens on Friday and run:

CARDIFF Twenty-five young sinders from pround the world will be booing their voices are in peak conditio this week for the seventh Cardiff Sings competition, which begins today. As previous prize winners have included and Bryn Terfel, this contest has an enviable track record There will be five daily heats at St David's

final at the weeker



Brecht with a tin ear

David Murray reviews ENO's new production of 'Mahagonny'

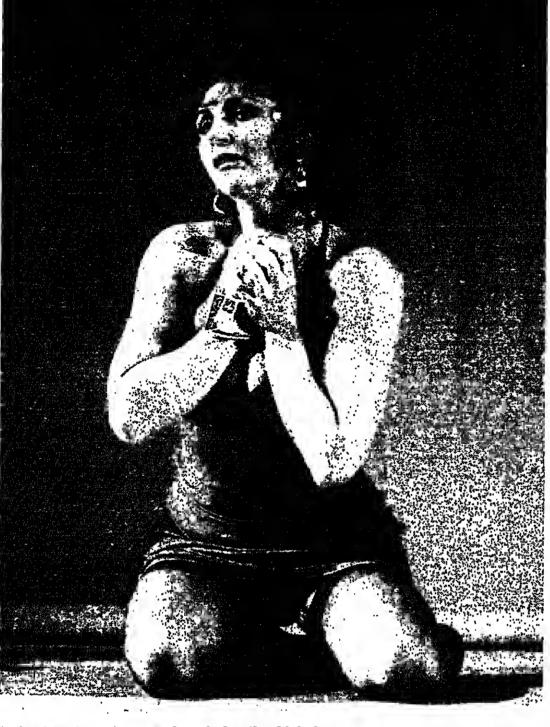
he refrain of my favourite song in The Rise and Fall of the City of Maha-gomy runs "Und wenn einer tritt, dann bin ICH es / Und wird einer getreten, dann bist's DU": roughly, if somebody gets stepped on, it'll be ME who does the stepping and YOU who gets stomped. Kurt Weill set Brecht's verse as an elegant beguine (as in "When they hegin the ..."), hut with the personal pronouns trucu-lently stressed - and, indeed, every other Brechtian nuance deftly captured in the music.

In German, it is practically impossible to sing it wrong. But Declan Donnellan's new staging at the ENO employs a translation by Mich-ael Feingold: as Jenny, the leading whore of Mahagomy, Lesley Gar-rett has to warble "So lie DOWN and get KICKED if you want to; as for me, I would rather stand and KICK" (?!) - which is impossible to sing right. Feingold has a tin ear for Brecht and Weill alike; one could multiply painful examples.

It hurts particularly in this opera", because it is an expansion of their original Mahagonny-Songspiel - retaining its format of minimal parrative and distinct tableaux and therefore its foundation in lapidary mock-pop songs, where words and music must go hand-in-glove. That partly accounts for the pervasive lack of bite in the ENO's version. Though in its way it is a valiant effort, on the first night it neither gripped nor stung.

Miss Garrett is pert, sexy and musical, but musically innocent; a streetwise "Wie man sich bettet" was never on the cards. As Widow Begbick, the founder and whoremis tress of Mahagonny (a nothingbarred Las Vegas on the way to and from the Alaska Gold Rush), Sally Burgess gives us a crisp, smart ste-reotype where something like a Mother Courage, or at least the Mother Goose of Stravinsky's Rake, would be nearer the mark. Brecht viewed decadence as raddled and desperate, not chic.

There is e lot of amplification, strangely little of which helps to get any of the words across. Fortunately the American tenor Robert Brubaker needs no such help. He has a useful resemblance to the younger James Cagney, and his earnest fervour as Jim, the fleeced and



Lesley Garrett: pert, sexy and musical as the chief whore

ruined hero, gave the show its only real focus. We can look forward to his Don José for the new ENO Carmen in September.

The quartet of male losers is completed - in descending order of effectiveness, but they are all creditable - hy John Daszak, Richard Angas and Riccardo Simonetti. Better still are Ms Begbick's partners in crime, the black American bass Brian Matthews' Trinity Moses and Adrian Thompson's alarmingly ohese Fatty. And yet even they present themselves rather deco-rously: might Donnellan have taken his cue from the older Weill's remarks about Mahagonny?

For different reasons, Brecht and Weill both felt vaguely embarrassed about it later. Brecht referred to It as a "culinary opera" - calculated to please, like good cooking, but not to do much more. Weill came to think it too closely hound to its time (1929), and urged new productions to abjure extravagant caricatures or grotesquery, though those were exactly what ensured the impact of the original "Songspiel". Donnellan has observed Weill's strictures all too faithfully and modestly. When at last the raucous trial-scene takes fire at the start of Act 3, we realise how tame the earlier

The conductor is Sian Edwards. as usual brisk and unyielding. She

draws an excellently bright, brittle sound from her orchestra, hut leaves scant room for quasi-pop nuances from her principal singers Vital thrills are lacking: the imminent typhoon in Act 1 sounded quite inert. She has chosen to omit the "Crane" love-duet (it was added later to the opera - but the opera is what the ENO is performing, not the "Songspiel"); and to reinstate the first version of the yearning "Benares" song, more dismayingly woozy and therefore better. This Mahagonny is worth hearing, hut not altogether to be helieved.

Culture without boundaries

hegan in that extraordinary spring and summer of 1990, when it seemed the entire youth of Europe was marching, the "Ode to Joy" on their lips, old Soviet army caps at jaunty angles on their heads, through the great yawning gaps in the Berlin wall.

To the west, the national barriers had already fallen, and there were only a few pockets of resistance to clean up before the Delors ideal of a frontier-less, supranational Europe was fully realised. To the east, it was only a matter of time before the new democracies followed the west down the pan-European path. Indeed, was not November 1989 the final victory of European humanism, had not the wall been punched through by at least one of Michelangelo's Sistine ceiling fingers, and would not the former satellites gratefully exchange their failed transnational utopia for an ohviously successful one?

Even two years on, things looked very different. Far from the east importing western universalism, the traffic appeared to be the other way, with Bavaria, Catalonia and Lombardy eagerly emulating the emergent separatism of Slovenia. Slovakia and the Baltic states. And instead of being a temporary festivity, the ceremonial ornaments of new nationhood were hardening into real statehoods with real bor-ders, both external and internal (virtually the first act of any new east European state appeared to be the banning of the language of its own minorities).

The concept of Europeanness itself had changed from one of inclusion to one of exclusivity, less about who you were than what they were not. Even in 1990, it was clear travelling through Yugoslavia that "Europe" was a place that stopped 20 kilometres to the east of wherever one happened to be; by Christmas time in Prague, it was clear that even liberal Czechs had drawn thick black borders between themselves and Slovaks, gypsies, and even (sometimes) the Moravians. The conversion of Europe from an assertion to a denial of enlightenment ideals seemed an urgent subject for a drama.

Happily, my sobering journeys through the centre and south-east of the continent provided a number of rich metaphors. First, there was the phenomenon of the restitution of state property to its former owners, with its anecdotes of rock muslcians discovering they owned car factories, and Pennsylvanian expatriates inheriting great tracts of the Ukraine. Second was the consequential history of so many European buildings, as they zigzagged from

religious to secular use, from palace via parliament to nightspot, and from the prosaic to the unthinkable, And then finally, in a monastery near Skopje in Macedonia, I saw

some 12th century frescoes of the Crucifixion that teetered so tantalisingly on the hrink of Giottan naturalism that is was impossible not to wonder whether the beginnings of the renaissance, the starting shot of the great relay race from medievalism via the reformation and the enlightenment to the scientific revolution, might have begun not in Europe's heartland but on its eastern edge.

From this came the idea of a church in an unnamed south eastern European country, with an eminently checkered history, behind one wall of which is a hitherto unknown fresco that if painted when it seemed to be could revolutionalise the history of western art.

David Edgar considers the new map of the imaginative world

Added to that was a hitter contest among art historians, priests and politicians for both literal and historical ownership of the painting, culminating in an invasion by those forces from the east and south on whose "otherness" the very concept of European culture depends. Running under all of which was

(and I hope is) a dialectic accepting the failure of the universal Communist ntopia, but questioning whether the only alternative is a return to national and religious fundamentalism. Communism in essence sought to reveal the universal in bumankind by stripping off the bark of past tradition, and clothing the subsequent naked trunks in uniform. The new nationalisms see history as a fancy-dress box from which they can plunder the liveries of those old social, cultural and ethnic hierarchies they seek to re-establish. I wanted to posit a different way of looking at culture: one which acknowledged that all cultures are fundamentally hybrids. developing in response not just to the urge for continuity but the exigencies of change.

If clothing is one metaphor of this, then language is another. By attempting to construct a system free from the irrational detritus of the past, communism was a kind of social Esperanto. By contrast, its successors are attempting to re-es-tablish barriers between languages that have long since mingled: in Minsk and Zagreb linguistic commissions solemnly construct neologisms for aeroplane and print-out with all the zeal of western govern-ments combatting Swinglish and

But in fact, this enterprise is doomed. The real contest in the world is not between Belarus and Russian, nor even Croatian and Serbo-Croat, but between mono and bilingualism. Which is wby the English that is now the most spoken language in the world is not our English, or even Hollywood's, hut rather that huge, rich casserole of dialects, patois, pidgins and creoles that makes up English as a second language, English not as a club card but a passport.
Impure, mutating, incomplete,

corrupt: ESL is a vivid metaphor of bow cultures actually relate, in the real world, away from the hermetic fantasies of the nationalists. It is not via ancient tradition but freer travel that we came, saw and borrowed Moorish dancing from the Spaniards (corrupting it to "Morris"). Freud based an entire theory of childhood recollection on a mistranslation of Leonardo's notebooks. The English of Romanians is influenced by the popularity of bootleg videos of Dave Allen, Rugby league and The Onedin Line. And as Robert Graves pointed out in his assemblage of the Greek myths, the climax of the Theseus story is based on a creative misreading by a storyteller of an ancient icon of a ship with a black sail.

So the Pakistani sisters Salma and Sabina (who sing Ahba songs in Hindi), and a legendary Welshspeaking Cardiff reggae band (rejoicing in the title Rasta-Cymru) are but the latest manifestations of a tradition of cultural hybridity which stretches back to the construction, via French gothic naturalism and Byzantine iconography, of what we now call the Italian renaissance.

Properly, I considered many of these notions in southern Italy, where Greek temples, Norman forts and Moslem turrets attest to ancient Interminglings, and Goethe's diaries, Wilde's last journeyings and plaques to Ibsen to more modern ones. With Paestum, Pompeii and Capri in easy reach, the Bay of Naples is now both a heritage attraction for the vacationers of northern Europe and a contested point of European entry from points south and east. It was a good place to begin a play about the dialogue between cultural and actual migrations.

*David Edgar's 'Pentecost', which lounched the Royal Shakespeare Company's Young Vic season, is the springboard for the RSC's European Festival, featuring poetry, music and debate. The festivol runs of the Young Vic from July 22-29.

INTERNATIONAL

■ AMSTERDAM

CONCERTS Het Concertgebouw Tel: (020) 671 Royal Concertgebouw Orchestra; with violinist Jaap van Zweden. Zoltan Peskó conducts Rihm and

Stockhausen; 8.15pm; Jun 17 **GALLERIES** Beurs van Berlage Tel: (020) 626 Salvador Dali - Sculptures and

illustrations: retrospective of sculptural work from the 1930's onwards; to Aug 20 OPERA/BALLET Het Muziektheater Tel: (020) 551

 Die Meistersinger von Nürmberg: by Wagner. Hartmut Haenchen conducts the Netherlands Philharmonic Orchestra and soloists Jan Hendrik Rootering and Siegfried Vogel; 5.30pm; Jun 13, 16

BERLIN

CONCERTS Konzerthaus Tel: (020) 309 21 02/ Berlin Symphony Orchestra: Kurt Sanderling conducts Beethoven and Mozart; 8pm; Jun 15, 18, 17 Staatsoper unter den Linden Tel:

(030) 200 4762 Berlin State Orchestra: with pianist Daniel Barenboim, soprano Laura Aikin and mezzo-soprano Katharina Kammerloher, Pierre Boulez conducts Wagner, Bartók and his own compositions; 4pm; Jun 17, 18 (11am) OPERA/BALLET

Deutsche Oper Tel: (030) 34384-01 Der Rosenkavaller: by Strauss. Conductor Jiri Kout, production by Götz Friedrich; 7.30pm; Jun 13, 15 Onegin: music by Tchaikovsky. Premiere at this venue, choreographed by John Cranko, produced by Reid Anderson and Jane Boume; 7.30pm; Jun 14, 17

 The Masked Ball: by Verdl.
Conducted by Rafael Frühbeck de Burgos/Sebastian Lang-Lessing. produced by Gotz Friedrich; 7.30pm;

■ BRUSSELS CONCERTS

De Munt/La Monnale Tel: (02) 218 Juliane Bense: soprano

accompanied by planist Wolfram Rieger; 8pm; Jun 16

FRANKFURT

OPERA/BALLET Oper Frankfurt Tel: (069) 23 60 61 Lady Macbeth of Mtsensk: by Shostakovich: Conducted by Guido Johannes Rumstadt and produced by Werner Schroeter. Soloists include Valeri Alexelev, Ryszard

Karczykowski and Christine Clesinski; 7.30pm; Jun 15, 18 (3.30pm)

■ GENEVA

proceedings have been.

OPERA/BALLET Grand Theatre de Geneve Tel: (022) 311 2211 Orphee: by Gluck, French adaptation by Pierre Louis Moline. Conducted by Jeffrey Tate, produced by Andreas Hornoki. Soloists include Anne Sofie Von Otter, Barbara Bonney and Elizabeth Futral; 8pm; Jun 12, 15, 18

LONDON CONCERTS

Barbican Tel; (0171) 638 6891 London Symphony Orchestra: with soprano Cheryl Studer and cellist Tim Hugh, Andre Previn conducts Mozart, Beethoven and Strauss; 7.30pm; Jun 15 Royal Philharmonic Orchestra: with violinist Jonathan Camey. Yehudi Menuhin conducts Mozart, Takemitsu and Brahms and Sir Peter Maxwell Devies conducts the London premiere of his "Time and the Raven: United Nations Overture", written for the 50th anniversary celebrations of the

0088 Grand Classical Gala: the National Symphony Orchestra with planist Philip Dyson and the Kentish Opera Chorus, David Coleman conducts a selection of favourite classics; 8pm; Jun 18 Itzhak Periman; with the Philharmonia Orchestra. Yoel Levi

conducts Brahms' "Academic

United Nations; 7.30pm; Jun 14

Royal Festival Hali Tel: (0171) 928

Festival Overture" and "Violin Concerto" plus Mozart's "Violin Concerto No.3"; 7.30pm; Jun 13 Itzhak Perlman: Yoel Levi conducts Bernstein, Barber and Tchaikovsky; 7.30pm; Jun 15 New York Philharmonic: Kurt Masur conducts Strauss'

"Metamorphosen" and Beethoven's "Symphony No.3"; 7.30pm; Jun 16 Vanessa-Mae: violinist with the English Sinfonia. Oliver Gilmour conducts Schubert, Bruch, Arnold and Schumann; 7.30pm; Jun 14 GALLERIES

Barbican Tel: (0171) 638 8891 George Rodger: retrospective of approximately 250 pictures which includes pictures taken during WWil; to Aug 27 Riverside Studios Tel: (0181) 741

 Yevgenny Khaldei: war photographs by Khaldei who was employed by the Tass news agency during the second world war: to Jun

OPERA/BALLET Royal Opera House Tel: (0171) 304 4000

 Billy Budd: by Britten. A new production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francia Egerton, John Duykers and Rodney Gilfry/Peter Coleman-Wright; 7.30pm; Jun 13, 15 THEATRE Donmar Warehouse Tel: (0171) 369 1732 Insignificance: written and

directed by Terry Johnson, Cast includes Frances Barber, Alun Armstrong, Jack Klaff and Ian Hogg; 8pm; (not Sun) National, Cottesioe Tel: (0171) 928 2252

 Richard II: by Shakespeare. Deborah Warner's new production featuring Flona Shaw as the king: 7.15pm; Jun 12, 13, 14 (2pm) National, Lyttelton Tel: (0171) 928

 Absolute Hell: by Rodney Ackland, directed by Anthony Page. Bohemian life in a London drinking club in 1945. Cast Includes Judi Dench and Greg Hicks; 7,30pm; Jun 12, 13 (2.15pm) National, Olivier Tel: (0171) 928

 Under Milk Wood: by Dylan Thomas. Directed by Roger Michell and stars Robert Blythe; 7.15pm; Jun 12, 13 (2pm), 14

■ MUNICH GALLERIES

Bayerische ammiungen Tel: (089) 23 80 50 Naples: works produced between

1988-90 by the action artist Ernest Pignon-Emest that are influenced by 17th century Neopolitan artists such as Stanzione, Caravaggio and Ribera; to Jun 18 (not Sun)

PARIS

CONCERTS Châtelet Tel: (1) 40 28 28 40 The orchestra and chorus of Les Arts Florissants: with soprano Susan Bullock, alto Susan Bickley, tenor Mark Padmore and Bass Thierry Felix. William Christie conducts Beethoven; 8pm; Jun 16 Champs Elysées Tel: (1) 49 52 50

National Orchestra of France: with soprano Monica Pick-Hieronimi, mezzo-soprano Nadja Michael, tenor

Thomas Dewald and bass Michael Volle. Charles Dutoit conducts Beethoven's "Symphony No.1" and "Symphony No.9"; 8pm; Jun 14, 15 GALLERIES

Louvre Tel: (1) 42 60 39 26 Hans Memling: exhibition of paintings by the Dutch master to commemorate the 500th anniversary of his death; to Aug 14 OPERA/BALLET Opéra National de Paris, Bastille

Tel: (1) 47 42 57 50 Les Capulet et les Montaigu: by Bellini, Conducted by Bruno Campanelia and produced by Robert Carsen. Soloists include Jeffrey Wells, Cecilia Gasdia and Jennifer Lamore; 7.30pm; Jun 12 THEATRE Théâtre de Nesie Tel: (1) 46 34 61

Faith Healer: by Brian Friel. Alcoholic faith healer in Ireland, Cast includes Les Clack, Patricia Kessler and William Doherty; 8pm; to Jun 14 Zoo Story: by Edward Albee, directed by Boh Friel. Part of the English language theatre festival; 9.30pm; to Jun 24

■ WASHINGTON

GALLERIES National Gallery Tel: (202) 737 4215 Piet Mondrian: exhibition of 147 works on the 50th anniversary of the artist's death; to Sep 4 THEATRE

Kennedy Center Tel: (202) 467 4600 Angels in America: Perestroika. Part Two of the Tony Kushner award-winning play about politics,

sex and religion. Stars Jonathan

Hadary; 7.30pm; to Jul 9 (not Mon)

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Tonight

Shakespeare didn't need a subsidy

here is no surer way of annoying left-ofcentre cultural elites than hy proposing cuts in funding for the arts. Democrats have reacted with predictable anger to calls from congressional Republicans for the phasing out of subsidies for public television and institutions such as the National Endowment for the Arts. I can understand the anger

because I benefit from cultural subsidies. The only US television f find bearable is the nublicly funded channel. I get pleasure from many other subsidised institutions such as Washington's superb National Gallery of Art, which caters mainly for affluent, educated whites yet charges no admission fee. I am a beneficiary but I do not think the subsidies can be justified.

People often claim the arts would fall into decrepitude if subsidies were abolished or greatly reduced. This is nonsense. You only have to think of the conditions under which most of the art we revere today was created to grasp the irrationality of such fears. It was only with the rise of the welfare state 50 or so years ago that British and US governments began to subsidise the arts lavishly

For most of human history. painters, composers and writers were either supported by individual patrons or produced for "the market." The miraculous works of artists sucb as Shakespeare, Titian and Haydn found a market even though per capita Incomes in their day were minuscule by our standards. Great art found buyers. in other words, even though communities - judged by our standards - could not afford the necessities of life.

There are more potential patrons of art alive today and richer patrons at that than at any time in history. People are better educated and more affluent than ever before. It is thus absurd to argue that art must be dependent on public largesse when it flourished in less propitious times. But suppose, for the sake of argument, that the sceptics are right. Suppose the arts were to collapse following the with-drawal of subsidies. That would mean nobody was will-



AMERICA

products or services of artists. In that case, the arts ought to go into decline.

Government subsidies for the arts are not just unnecesharmful. ft is notoriously difficult to judge the quality of the art of one's own period, if only because the artists that poster-ity will judge great are often still unknown. Ernst Gombrich, the art historian, once in 1890 would probably bave heen ignorant of the work of Van Gogh, Cezanne and Gauguin. Yet with this proviso, it still seems likely that the second half of the 20th century will be rated a barren period for the arts. It is not a coincidence that this half century also saw a mushrooming of arts subsidies.

Public funding is pernicious because it creates an artificial barrier between the artist and his public. The bureaucrats wbo administer grants represent the producers of art, not the consumers. They have a pot of tax revenue at their disposal and take delight in supporting "progressive" works even when popular demand for such products is nil. This is influences their decisions is largely that of "experts" - the artists themselves and the crit-

ics who swim in their wake. The artificial market for art created by public subsidies can promote a disturbing arrogance in artists, it encourages the delusion that any form of self-expression is art. I recall listening to a most unappealing modern work by a minor composer. Afterwards, I asked him whether he felt it was important to give audiences pleasure. Did be worry that his compositions were inaccessible? He seemed haffled by the questions. He was

the artist, the winner of grants and acclaim. The impression he left was that the public should learn to appreciate him. not vice versa. It is hard to imagine Haydn taking this line with his employer. Prince Esterházy. Yet did Haydn's need to satisfy the preferences of an individual patron result in servile music?

enforcer "Judge Dredd", only

one motor vehicle will have survived into the garish, crime

ridden 21st century world

depicted in the comic strip

turned feature film. The

future, according to the movie,

will be full of sci-fi Land

It is not just in fiction that

Land Rovers have a cult sta-

tus. So strong is demand for

Land Rover's products that the company, a subsidiary of Rover

of the UK, now owned by BMW

of Germany, has taken on

almost 2,200 employees since

The biggest increases in

demand are for the Range

Rover and Discovery. Produc-

tion of the new Range Rover model introduced last year is

being stepped up by a fifth to 620 a week at the end of this

month, while a third shift is

about to be added to the Dis-

tion of the utilitarian Defender

range - the workhorse for

farmers and armies around the

world and once Land Rover's

only model - has also risen,

though by a far smaller mar-

Last year, European motor

ists bought 300,000 four-wheel

drive vehicles (known as

sports-utilities), according to

Automotive Industry Data, a

market monitoring company.

Sales are expected to reach

500,000 units by the year 2000.

Land Rover's growth has

reflected that popularity. Its sales are expected to exceed

The original Range Rover

virtually created the sports-

utility market when it was

introduced in 1970. Since then,

it has been progressively

improved, making it a competi-

tor for luxury marques such as Jaguar, BMW and Mercedes.

In 1989, the Range Rover was

joined by the Discovery, a

model geared towards middle

to-upper income buyers which

has become Land Rover's hig-

gest seller. Even the workaday

Defender has been moved up-

market, possibly to make way

for a smaller. lower-cost

vehicle beneath it. Last year

the company made 54,500 Dis-

coveries, 18,000 Range Rovers

But as another 400 workers

join the company this month,

analysts are wondering

whether demand will continue

and 22,300 Defenders.

pared with 95,000 in 1994.

1994 - a 20 per cent increase -to raise output.

Rovers.

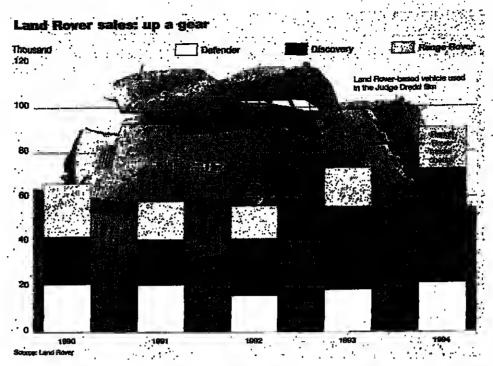
The case against direct subsidies for the producers of art is thus powerful. But it may appear that a stronger arguent can be mounted for sub sidies for the consumers of art. Sceptics may concede that the arts prospered mightily in past centuries, hnt will note that only a tiny fraction of the population possessed the means or education to appreciate them. ernments should surely try to widen access to art by provid ing "arts vouchers". Consumers could use them, for example to gain discounts on opera tickets and cheap admission to museums and galleries.

Vouchers would promote the arts in a non-distortionary fashion: consumers' purchasing power would be increased than those of officials - would determine which artists pros-pered and which failed. And if tbe vouchers were means tested, the great inequity of present arts subsidies - the fact that the benefits go dispro-portionately to the affluent would be ended.

Arts voucbers may seem a ood idea. The trouble is that hureaucrats would bave to decide what constitutes art. would allow the use of vouchers to purchase Bacb and Beetboven recordings; but f would exclude John Lennon. However, this is a personal iudgment. Others would disagree. In practice it would be foolish to restrict the use of arts youchers: they would thus become just another form of

income support. f conclude that governments should provide no subsidies whatever for the arts. Any subsidies represent a judgment that all taxpayers should be required to support certain artists, living or dead, bowever much they may abbor their work. Such coercion is indefensible in a free society. Government should focus on tasks The vehicle maker will have to remain nimble to stay competitive, writes Haig Simonian

A starring role for Land Rover



luxury saloons - the Range Rover, for example, costs £43,950 (\$69,805). The sportsutility makers face growing competition from "multi-pur-pose vehicles" (MPVs, also known as people carriers) that seat seven or eight adults with car-like handling.

People carriers offer many of the advantages of sports-utilities, such as a commanding driving position and large load capacity, at a lower price. Moreover, their styling is as striking and individualistic, while they are probably more practical for families, which do not need the sports-utilities' off-road capabilities. They are also cheaper to run.

The MPV market, inangurated by Renault's Espace, is thriving in Europe with many car companies launching their versions. Mitsubishi has its Space Wagon and Space Runr. Nissan the Serena, Toyota the Previa and Volkswagen the Caravelle. A new MPV, developed jointly by Ford and Volkswagen, makes its debut this year; Honda is also about to

launch one; and the fruits of a Fiat and Peugeot-Citroen joint venture are already to be seen on continental European roads. But even within the sportsutility sector, competition is hotting up. Toyota is believed to be planning a luxury ver-sion of the Land Cruiser for sale in the US under the Lexus brand. Mercedes Benz, which

Geländwagen, will start making a sports-utility in its new US plant in 1997. Even Ford is thinking about entering the sector via Jaguar or its upmarket Lincoln subsidiary. In spite of its success, Land Rover is a relatively small carmaker in international terms, In 1994, Chrysler's Jeep subsidof its Cherokee - roughly

has failed to match Land

Rover's success with its boxy

equivalent to the Discovery as Land Rover's total vehicle output. Toyota and Nissan are also bigger producers of four-wheel drive vehicles.

Land Rover rejects the criticism that demand for four-wheel drive cars is a passing fashion. "What's wrong with buying a car for its image?", asks Mr Colin Walkey, head of external relations. "People like to be seen in Range Rovers, even if they

Land Rover also points ont that its sales are spread across a wide range of models, and says its production lines have changing consumer tastes. As the company has returned to profitability in recent years, it has ploughed earnings back into its main production plant in the UK at Solihull in the Midlands to increase the number of model variations it can accommodate. Improved labour relations are among the factors that have made this

Land Rover's vehicles, furthermore, are much more widely available than in the past. In the 1970s, sales were concentrated in poor, developing countries, which snapped up Defenders almost as fast as the company could make them.

Today, the company's hig-gest markets are rich, industrialised countries such as the

US. The Range Rover, intro-duced into the US in 1987, opened the door to the Amerian market, and the Discovery, launched there seven years later, has built on that initia-

tive with expected US sales this year of 15,000. Europe are also valuable markets. The new models have further increased sales in established markets such as Switzerland, France and Italy, where Land Rover has tradi-

tionally done well Profits bave also risen Although Land Rover's figures are not quoted separately from the Rover parent company, analysts think it made about £100m before tax in 1994.

This contrasts sharply with the company's record in the in the developing countries led to a steep fall in sales. Production plunged to 33,799 in 1986 as foreign armies, governments and entrepreneurs reduced

be trauma of the mid-1980s Iles warnings that Land Rover could face a renewed crisis if it becomes as dependent on sales to the image-conscious urbanites as it was on sales to developing countries a decade ago.

The company's products transport vehicles," warns one stockbroker who analyses the motor industry. "People buy them for what they signify, not what they do."

Others see the trend as an advantage rather than a risk for Land Rover. "People want something a bit different at a time when cars look and feel. increasingly alike," says one analyst. He argues that the rising demand for sports utilities reflects the car market's increasing segmentation, which has already prompted many manufacturers to bring out niche models, such as convertibles.

Such confidence suggests sports-utilities are here to stay, If so, the challenge for Land Rover will not be the disapnearance of its niches, but the bility to respond quickly to fluctuations in demand for different models. That will take highly flexible manufacturing systems and require the continuing co-operation of the company's workforce.

The futuristic styling of Judge Dredd's vehicles may be a flight of fancy, but Land Rover will have to stay nimble if it wants to remain competitive into the 21st century.

THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Translation may be available for leners written in the main internadonal languages.

WTO objectives hostile to EU integration

From Mr Harry Shutt. Sir. Professor Jagdish Bhag-wati (Personal View: "The high cost of free trade areas", May 31) is right to point out the inconsistency involved in promoting free trade areas while yet purporting to uphold the principle of non-discriminatory, multilateral trade which is central to the General Agreement on Tariffs and Trade/ World Trade Organisation

Yet in concluding that the latter should be sustained at the expense of further moves to create free trade areas be only serves to emphasise an

inherent weakness In the concept of non-discrimination, namely that it is inimical to economic integration between groups of countries. This despite the fact that article 24 of the Gatt actually favours the creation of customs unions and free trade areas on the grounds that they increase freedom of trade through closer economic integration between the parties

As shown by the case of the EU, the logical extension of this argument is that freedom to economic, monetary and

ultimately political union maintaining harmony between among co-operating states. In them and ensuring that they among co-operating states. In such a union, it is true, the attainment of a single market is only possible if disadvantaged regions within it are granted subsidies and transfers to offset their lack of competitiveness - as the history of both the EU and the US sug-

Yet this should only worry those who are afraid to recognise that genuinely free trade is a pipe dream.

surplus funds in handouts and

sbare purchases, the utilities

invested in improved technol-

ogy that provides better ser-

while, the Energy Saving

Rather than opposing the formation of such unions or regional groupings, the WTO should assume the role of

do not develop into mutually antagonistic trading blocs. Yet unless it also broadens its remit to take account of the whole range of factors governing International economic relations - abandoning the absurd pretence that such considerations as environmental and labour standards are irrelevant - it will fail to be taken seriously in this or any other

Harry Shutt 19 Tennyson Close. Horsham, West Sussex RH12 4PN UK

Tread more softly with

this test

From Mr Muir Bonnington.
Sir, I refer you to the article about the 360° appraisal test ("Turning the tables", May 31). vice with less waste. Mean-The 360° test is the wheel on which beliefs are broken.

Some of those who have been subjected to its ministrations view it as a modern-day successor to the Inquisition Paradoxically, like the chairman mentioned in your article, they often are the very ones who have the most to gain from its

Rather than denying their validity or attacking the method, their time would be better spent reflecting on the

information it provides. However, I believe those who carry out the tests also have a continuing responsibility. Often they underestimate the psychological disturbance or stress created when the evidence produced shows the person's self-image is far removed from their colleagues

This stress is unnecessary and can be avoided. It is bad for both the wellbeing of the individual and rep utation of the 360° test. Perhaps the testers would be wise to reflect on the lines from W.B. Yeats: "I have spread my dreams under your feet; Tread softly because you tread on my dreams.

Muir Bonnington. 12 Arretine Close, St Albans, Hertfordshire AL3 4JL, UK

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of trade is maximised where there is progressive movement

Utilities' main priority being ignored

concerned.

From Mr James Skinner. Sir. It is sadly typical of our generally cock-eyed approach to the economics of resource management that the policy debate on the utilities focuses largely on who should receive the juiciest cash handouts directors, employees, share-

holders or consumers. The utilities are responsible for managing two of our most water and electricity. Their

first priority should be to invest in conserving those resources while supplying the most efficient services possible to consumers. It is now common knowledge that inefficiency causes massive waste of both water and electricity and yet investment in modernising the delivery and utilisation of

water and energy supplies is

minimal.

Trust, formed precisely for that purpose, stands impotently by while the utilities squander their surpluses. James Skinner, Heron House, Chiswick Mall, The whole nation would benefit if, instead of dissipating Chiswick Mall, London W4 2PR, UK

Pressure for audit practice changes

From Mr John Wosner. Sir, Mr (an Brindle would bave us believe that the only issue arising out of the appointment of Price Waterbouse as auditors to the RAC is the relative efficiency and effectiveness of the audit ser-vice offered by the accounting firms invited to tender (Letter, May 25). The content of his letter, however, raises more questions than it answers. For

1. Mr Brindle says tbat every year PW spends tens of millions of pounds researching and developing better ways of auditing". He does not explain how that huge annual expenditure is recovered from a materially lower audit fee, especially as, by implication, he suggests that Stoy Hayward does not incur software expen-

diture on such a large scale. 2. Mr Brindle denies the existence of a link between an audit appointment and the opportunity to sell lucrative

consultancy assignments in a world where consultancy pro-jects go out to tender and the best tender wins". He does not explain the undouhted success of incumbent auditors in winning sucb consultancy contracts as evidenced by informabon in the published accounts of all public companies. The opportunity to sell non-audit services by an incumbent auditor has always been accepted hy accounting firms as being beneficial to client and auditor. However it is only in recent years that the link has become such a dominant factor in

audit pricing.
3. Mr Brindle maintains that his firm's software is far more effective than the "busloads of articled clerks" that used to do the work. Yet be does not explain bow it is that Price Waterhouse annually recruits around 800 students - a not substantially different figure

from that of five years ago. The only issue of public

importance arising out of the RAC audit tender is wbether in the 1990s the auditors of public interest companies are Independent and seen to be independent. That remains as fundamental today as it was when the office of auditor was introduced into company law in the 19th century.

The question is whether the commercial pressures on hig accounting firms to sell non-audit services bas become so material as to have eroded that independence. Unfortunately, the diminished standing of the accounting profession and the public loss of confidence in the value of the audit suggest that changes will need to be imposed if they are not adopted voluntarily by the professioo. John Wosner,

national managing partner, Pannell Kerr Forster New Garden House, 78 Hatton Garden.

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FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Monday June 12 1995

A pragmatic Mr Chirac

A "breath of fresh air" is how Mr John Major described his weekend talks with Mr Jacques Chirac on the future development of the European Union. The UK prime minister seemed confident that the new French president would inject a note of realism into preparations for the 1996 intergovernmental conference (IGC).

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His optimism was based on Mr Chirac's signal that he wants to broaden co-operation with the UK, and is willing to soften criticism of Mr Major's stance on economic and monetary union. The Franco-German axis, Mr Chirac added, was a "necessary, but not sufficient" condition for the development of the Union: "We will not huild Europe without Britain." So, if this first meeting proves an accurate guide, Mr Major has found a sympathiser, if not an ally, in the Elysee.

Mr Chirac is genuine when he describes his understanding of British doubts over monetary union. The Gaullist president knows his Eurosceptics. Back in 1979 be fulminated that Europe threatened to reduce France to a vassal state. More than a decade on, he supported the Maastricht treaty, but indicated subsequently his concern that it might restrict his room for manoeuvre in tackling France's high unemployment. His suggestion at the weekend of a study of the impact of a partial monetary union reflects a parallel concern that France might be put at a competitive disadvantage if others stay outside a single cur-

France and Britain share some

ideas on reinforcing defence co-operation, a likely focus of the IGC. There are differences, but their joint experience in Bosnia has bonded the two countries together. "British soldlers under French generals, and French sol diers under British generals - that is the real European defence co-operation." Mr Major remarked.

There was common ground also on institutional reform. Mr Chirac said they wanted to see the Council of Ministers reinforced relative to the European Parliament and Commission. And France is not looking for a large-scale extension of majority voting. Germany takes a more overtly federalist line on both issues

It is not surprising that Mr Major, under siege from the Euro-sceptics in the Conservative party. welcomed so warmly such prag-matic rhetoric. The prime minister would be advised, however, not to interpret Mr Chirac's words as supportive of the almost entirely negative approach the UK has adopted thus far towards the IGC.

The French president has offered a hearing for any constructive proposals the UK might table. But France has not abandoned its support for a deepening of the Union. Mr Major meanwhile is in danger of becoming a prisoner of the Tory Eurosceptics.

If he heeds demands - under lined again at the weekend by Mr Michael Portillo, the Eurosceptic employment secretary - to treat the IGC as little more than an opportunity to wield the national veto, this latest entente will prove

Japan in a vice

The Bank of Japan insists that the economy's gradual recovery remains on course. Its latest quarterly survey of corporate expectations, released on Friday, provided some very modest grounds for optimism. But the country's investors found little to suggest that the country is about to grow out of its problems. Neither should the Japanese authorities.

The Bank's trumpeting of the survey, which showed a rise in corporate confidence last month, was understandable. Good news about Japan has been difficult to find in recent weeks. The core consumer price index was lower in May than it was a year earlier: its first move into negative territory in the current cycle. And domestic spending, which showed signs of recovering last year, has also dropped off sharply. More broadly, the continued anaemic state of domestic demand offers little hope that it will be able to rescue the recovery from the effects of the yen's 14 per cent appreciation against the dollar since January. That the Tankan survay can find a rise in the number of companies reporting "favourable" husiness conditions, under such circumstances, provides yet another testament to Japanese producers' resilience. But there is a danger that the finding will be taken as an excuse to defer, yet again, the measures needed to avert a further downturn.

A cursory glance at the state of financial market sentiment ought to rule out such complacency. Little moved by the Tankan report, the Nikkei index of leading stocks fell again on Friday. The index ended the week over 5 per cent lower, bringing the combined fall sinca the start of the year to nearly 24 per cent.

Japan shows every sign of becoming trapped in a vicious cycle of falling prices, worsening private sector deht problems and crumbling domestic demand. Eventually, more profound deregulation of the economy would spur the real economy and help bring down the ven. But in the short term, the easiest way to help would be to loosen monetary policy further, which would work against further yen appreciation and support prices and demand.

However, monetary policy alone looks less and less capable of healing the sector which worries investors the most : the banks. Japanese banks are now thought to be carrying at least Y40,000bn (£298bn) in bad dehts, a figure equal to 6 per cent of their total lending. Last week the government seemed about to accept the need for more direct - and costly - measures to alleviate this dehi burden. Yet the much-vaunted package of support, unveiled on Thursday, turned out to be only a warmed-up version of the same old policies.

Plainly, the scale of the crisis in Japan, not merely in the banking sector but in the economy as a whole, requires a more aggressive approach. Neither the government, nor the central bank, can afford to delay any longer in providing one. .

Hong Kong court

The Sino-British agreement on Hong Kong's court of final appeal marks an important milestone on the road to 1997. Not only does the deal resolve one of the most contentious outstanding issues, which had been threatening to undermine husiness confidence during the transition to Chinese rule. By holding out for an agreement, Britain has recognised that the time for bold independent initiatives is past. .

Such crucial issues can no longer be tackled unilaterally like the earlier electoral reform. From now on collaboration must be the order of the day, and China will inevitably play the dominant role: There has never been an easy

trade-off between a smooth transition and the need to secure democratic and legal safeguards for Hong Kong after 1997. Britain won agreement on the court only at the expense of a significant climbdown. It wanted the court set up well ahead of 1997 to provide a body of jurisprudence. Instead it will start operations only after the handover. China will effectively be able to define its remit by deciding which so-called "acts of

state" are outside its jurisdiction. Not surprisingly this leaves the legal community uneasy. Mr Martin Lee, the outspoken barrister who leads the anti-Betting Democratic party, fears the rule of law will be undermined because the court will be unable to hear cases. against the government. By and large the business community is pleased. A pasty confrontation has then we been avoided. At least there will to rest.

be no legal vacuum after 1997 and Britain will have some say in arrangements for setting up the

court. At this stage, one can only guess whether the business view is too complacent. No one knows exactly how China will behave after 1997. Yet Beijing's readiness to reach a deal after months of obstruction is a positive sign.

It does not follow that other hadly needed agreements, like that on financing the new airport, will now fall into place. Other disagreements lie ahead, for example over Hong Kong's plan to relax press censorship laws. But the ter-ritory can take some heart from the fact that this deal involves concessions from the Chinese side

Beijing has dropped plans to set up a review tribunal which could override decisions it did not like Its promise to work towards the sage of the bill setting up the court is a rare recognition of the rola of the Legislative Council, an institution it instinctively distrusts.

Above all, the deal implies that Beijing is at least aware of the risk to confidence if there is no established rule of law after 1997. If so, it must also recognise that last week's agreement is only a beginning. The real test will come when the court is up and running. Hong Kong's legal system after 1997 must be seen to be impartial and independent if business confi-dence is to be maintained. Only then would current doubts be laid

o win a fourth term of office with your party in a trough of unpopularity is not an easy task. Mr Pasqual Maragall's reelection last month as Socialist mayor of Barcelona, Spain's second largest city, is a testament to the popularity of his forceful approach to the job of leading a modern Euro-

pean conurbation.

Mr Maragall is not immodest in his claims. He says there are two ways of running a large city. One is his: personalised leadership, amhitious planning and a strong reliance on municipal power as an agent of change. The other is how London is run: by what he sees as an uncoordinated mixture of central government, local government and private-sector organisations.

He recalls a visit he made a fer years ago to Mr Michael Portillo, then minister for English local government. Flicking through the may or's strategic plan for Barcelona, Mr Portillo remarked that London's new private-sector promotion body was similarly ambitious.

"That summed up the difference hetween us," says Mr Maragall. "The public aspect of a city cannot be separated from its promotion. The two must go together. Mr Maragall is a thoroughly mod-ern socialist, hut unquestioning in

his belief in the value of high-profile government action. He insists that the job of the city government is to sponsor ideas, generate popular support and then seek to engage public and private agencies to deliver them.

This ideology is not to all tastes. Yet the practical results are attracting attention worldwide, not least in Britain. London is a larger metropolis, but not so much larger as one might think. Barcelona has a population of 1.6m and its greater metropolitan area embraces 4m more than half the population of Greater London. Two-thirds of Catalonia's population comes within Barcelona's amhit, giving the city a position similar to that of London in south-eastern England.

A sense of perspective is important. A survey of 500 executives carried out last year by Healey & Baker, an international property consultancy, ranked Barcelona an impressive seventh as a European business location - three places higher than 1993, and above Milan, Geneva, Munich and Stockholm. Yet London came top of the league in both years.

It is the speed and scale of Barcelona's transformation which are remarkable, its economic growth rate is racing ahead of both Spain and Catalonia; and It scored highest, jointly with Brussels, in a recent survey of companies planning to increase their representation in European cities over the next five years.

In this year's Reith lectures on the modern city, Sir Richard Rog-ers, the architect, held up Barcelona as an example for London. "Autonomy, vision and strong leadership have totally transformed the city,"
he said. The process had gone "much further" than providing facilities for the 1992 Olympic games. "It included the realisation of a masterplan, including the refurhishment of Barcelona's streets and squares and the construction of new housing and services."

Barcelona has its share of municipal problems and shabby housing districts, particularly in its "Red Belt" of working-class dormitory towns. But the centre is now attractive, clean and efficient, and there are beaches rather than decaying docks for the first time in a century How did it happen?

The Olympics had a galvanising effect, but were as much the result as the cause of change. "Everyone understood from the first that the Games were the excuse, not the aim," says Mr Joan Clos, one of Barcelona's deputy mayors.

The pace has barely let up since. Having renovated the inner city, built new roads and beaches and tripled the size of its airport, the focus is now on upgrading the port, rail links and the still shabby eastern half of town.

Three themes stand out from the experience of Barcelona over the

Mr Barcelona on a winning ticket

municipal leadership has helped the city to flourish

past decade. First, the importance of civic leaders in managing change. Second, the high price - in tax and investment - of the transformatioo. Third, the role of the municipal government in forging public-private partnerships.

Mr Maragall, a loyal ally of Mr Felipe Gonzalez, the Socialist prime minister, is the public face of Barce lona at home and abroad. Yet his municipal government embraces only about half of the city's population, and under him are 36 boroughtype authorities (regidores) with their own hudgets. His council is more akin to the old London County Council, which covered the inner boroughs, than the Greater London Council abolished in 1986. A Barcelona equivalent of the GLC. embracing the city and suhurban authorities, was also abolished in the 1980s. But neither the regidores, nor the existence of the Catalan regional government (generalitat) under the control of Convergencia, the Catalan nationalist party, have reduced Mr Maragall's status as 'Mr Barcelona"

Despite the number of administrative tiers, excessive government does not appear to be an issue. People feel strongly about Spain, about Catalonia, about Barcelona and about Europe, so the structure makes sense," says Mr Maragall.

Furthermore, of the four tiers of local and national government, only two - city and central government - have significant tax-raising powers. The budgets of the regidores are met by the city, and the Catalan generalitat is largely financed by hlock grants from Madrid.

There is tension in the relation

ship with the regional government. led by Mr Jordi Pujol from a palace facing Mr Maragall's office in the city centre. Convergencia fought to oust Mr Maragall from his office in last month's elections, and Mr Pujol bridles at the suggestion that his region is essentially Greater Barcelona. "I have 941 municipalities, one of which is the city," he observes. However, Mr Pujol has played an important role in channelling cen-

to poorer provinces such as Galicia and Andalusia - but the imbalance has shrunk in recent years.

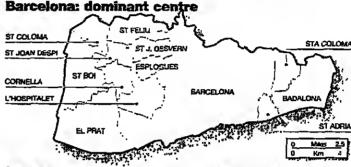
tral government funds to Barcelona. Catalonia still pays Madrid more ever, that proportion is no greater

tax of Pta51,338 (£266), including husiness taxes, is less than that paid by Londoners. Mr Clos estimates that a total of Pta870bn (£4.5bn) in public and pri-

Simon Kuper and Andrew Adonis on how a rebirth of

London: municipal jigsaw CAMDEN HACKINEY WESTMUNSTER WALTHAM BARNET KENSINGTON HARROW HILLINGDON HOUNSLOW WANDSWORTH TOWER HAMLETS Km 8 C/TY

A Government Office for London co-ordinates the activities of central government departments in the capital, but has no formal relationship with the boroughs. The Lord Mayor of London is non-executive head, for one year only, of the smallest borough, the Corporation of London - or the City. The typical annual borough budget is \$250m.



Catalonia is divided into 941 municipalities, of which Barcelona is the largest with 1,6m inhabitants, it has a far larger reach and revenue base than any London borough. Barcelona's greater metropolitan area, comprising the city government and several smaller

municipalities, has a total population of 4m. The cay is further divided into 36 regidores, borougn-type authorities, but their budgets have little significance compared with the central municipal funds.

Critics point to the city's deht. which stands at Pta270bn (£1.4bn), the servicing of which swallows almost a quarter of revenue. Howthan for a typical London borough, while the average per capita city

Divided rule in London

ous, and come and go with such rapidity, that most Londoners would be hard put to name them, let alone their leaders, The past year has seen some rationalisation in the governance of the capital, but there is still no single person or body in charge.

In the private sector, London First has replaced the nucoordinated organisations that used to promote the capital. It has established the London First Centre to attract inward investment. It has also been successful in launching a variety of initiatives such as improved tourism promotion and support for small businesses.

In local government, London's 33 boroughs have until recently been divided politically between the Labour-controlled Association of London Authorities and the Conservative London Boroughs Association. However, the split was healed in April with the formation of the Association of London Govern-

brought its share of London's administratim under one roof, with the Government Office for

Central government has also

odies claiming to repre- London. The new office has helped The opportunities for enberent regenerate the city and has access to the government's regeneration budget. But it has few real powers: its role is to ensure the boroughs make the most of opportunities to hid for state funds and build private sector partnerships to make the most of their resources.

It has no control over education, although higher education increasingly plays a role in urban regeneration schemes (eight new universities have been created in London in the past three years). Nor does the office have any formal links with the quangos that fund further education, or with Training and Enterprise Cruncils, which distribute training funds and have a role in attracting investment.

These developments have received a broad welcome from London's husinesses and local authorities. Nor should the city's existing strengths be underplayed: international studies rate London highly on many quality of life measures, notably parks and cultural centres. But the fragmentation of its governance bas in the past harmed efforts at promotion and

Whitehall officials confess that they are living in the shadow of the Greater London Council, abolished hy the then prime minister Mrs Margaret Thatcher nine years ago after a confrontation with its Labour leadership. Since then, there has been no directly elected authority for London, and none of the newly created London-wide bodies has been able to play the

The Lord Maynr of London often the figurehead for the capital abroad - is in fact the non-executive head of the smallest of London's local councils, covering a populating of 5,000 in the central business district Planning for the capital thus con-

tinnes to require tortuous negotiations hetween many hodies. Against the odds, a glossy London Pride prospectus was launched earlier this year with an ambitious programme to make London "head the league of world cities". But implementing its plans will require the co-ordination of an unwieldy assortment of committees.

John Authers

Barcelona for the Olympics. More than a third came from private com-panies, slightly less from Telefon-ica, the largely private national telecommunications company, and about a third from the public sector. Mr Maragall's pursuit of joint ventures with the private sector has taken him to areas where even the UK's private sector has long been constrained by the government, such as the four-lane ring road around Barcelona.

The mayor is convinced that the municipality's size and resources give it powerful leverage when it comes to industrial and infrastructure projects. He cites the decision of Olivetti to close its city centre factory in the early 1990s. The rent was too high and the huilding out-moded. Olivetti was considering leaving the region altogether. Mr Maragali did a deal: in exchange for its central site, the city gave Olivetti a more suitable location in a technological park outside town. The municipality then forged a business consortium to establish a shopping centre on the deserted central site. Glories, the largest shopping centre in Barcelona. opened last month.

Similarly, when Barcelona city hall decided that new hotels were needed for the Olympics, it created them swiftly without spending a peseta or needing to gain the consent of a plethora of horough authorities. Against resistance from existing hotels, the municipality reclassified industrial land for new hotels, a city-wide policy that could work in London only if many boroughs agreed. This has raised the number of hotel beds from 17,000 in 1990 to 28,000 naw.

be town hall has designated 10 areas of the city as "zones of new centrality", which are to attract offices, sbops and homes. The idea is to avoid a huge, soulless husiness district. At the moment they are little more than lines on a map, and with no Olympics in the offing, there is room for scepticism about their prospects.

However, humility is not much in evidence in the city hall. When the planned design for one botel struck Mr Maragall as ugly, he called the developers in for a chat. "A beautiful city is one of my main priorities," he says, "and obviously that requires me to have a view on matters of design." The developers amended their plans.

The city government is now run-ning a campaign, featuring a poster of an attractive woman applying lipstick in front of a mirror, to make Barcelona look "pretty". Most busi-nesses in the old town have been persuaded to renovate their build

An attractive city with a thriving cultural life is a magnet for new employers and business conventions - a significant growth indus-try for Barcelona. The bope is that tourism will continue to grow too, particularly now that the city has restructured its harbour to create

Catalonia now accounts for half of Spain's inward foreign investment. Mr Joan Torres, the city's transport councillor, muses of popularising the slogan: "Barcelona the Singapore of the Mediterranean." He adds hastily: "Only in the economic sense." The idea is to turn Barcelona into a flourishing trading centre like Singapore, while retaining the rich collection of art and architecture that Singapore lacks.

The city's main infrastructure projects are a high-speed rail link into France, planned for the next decade, and modernisation of the port. Mr Maragall's target is Europe's shipping trade with Asia-Pacific from Rotterdam. He points out that if Asian shippers used Barcelona as their European port instead, they would save four days

per journey.

The old port is being remade for tourists. It is modelled on Baltimore's restored harbour, and will have an aquarium like Baltimore's. Mr Maragall and his officials have learned from the latest developments in city planning around the world. Now planners elsewbere are trying to learn from Barcelona.

Observer

One more great trek

Spare a thought for the publishers of Afrikaans pornography as they trek into territory once forbidden to the God-fearing volk. Important as South Africa's decision to abolish the death penalty is, it should not overshadow other seminal changes that post-apartheid attitudes to civil rights are bringing to South Africa. Censorship regulations have been repealed and pornography is booming. Tha state is not prepared to prosecute, for it has to define pornography: nor is it clear how

any ban could be reconciled with

respect for the civil rights

entrenched in the new constitution. Although enterprising local publishers have moved quickly to satisfy English-speaking South African curiosity, frustrated Afrikaans speakers have had to become the equivalent of linguistic voyeurs. Their young language has been unable to cope with the infinite variety of words and

> expressions that this form of publishing traditionally requires. No longer, Rising to the challenge are the publishers of a new monthly magazine written in Afrikaans. Loslyf, literally meaning loose body. But it's hard work. Their English speaking counterparts can draw on the English language's rich history of erotic literature. Loslyl editors. have no such legacy. Instead they

have to coin new words and phrases as they go along with each issue extending the frontiers of Afrikaans language, philology...and

Fat fee zone

Early doubts about the success of the public offering of Clariant, the industrial chemicals division of Swiss health care products group Sandoz, may be lessened by the revelation that banks managing the SFr1.5bn offer stand to earn an impressive 4 per cent commission. That might even be enough to make investors consider buying the shares of the quoted banks in the syndicate, Union Bank of Switzerland, Swiss Bank Corporation, Credit Suisse, and Morgan Stanley.

Those with discretionary fund management accounts at these august institutions, or other syndicate members Robert Fleming and Goldman Sachs, should not be surprised if some Clariant shares turn up in their portfolios.

View finder

■ The Getty Museum, the US Library of Congress, the New York Museum of Modern Art and the Pompidou Centre in Paris all apparently expressed interest. But it was an anonymous foreign huyer who paid FF13.2m last Saturday for the personal archives of Raymond

Loewy, the ground breaking industrial designer. Loewy was born in France in 1893

and trained as an engineer. But it was not till he crossed the Atlantic that his career took off. He began in New York as a magazine fashion illustrator and then opened his own design company. He was involved in designing everything from the 1934 Sears Coldspot refrigerator and

1947 Studebaker Starlight Coupe, to

the logos still used largely unchanged by Esso and Shell today. But perhaps his most intriguing design contribution was a rather hollow one: a port-hole in the US rocket which landed on the moon The astronauts thanked him profoundly afterwards for changing the original window-less design, which would have left them without

Island hookers

a view on the world.

Though Singapore puts itself forward as a global information bub, the island republic's government makes sure inhabitants are not exposed to harmful outside images by banning the sale of satellite TV dishes.

But the state's rugby fanatics have found a way round the regulatory scrum. Deprived of watching the world cup in South Africa, they have turned to nearby Indonesia. Satellite dishes are also hanned there: but the Jakarta government has a more relaxed attitude to enforcing the rules than

So after each game, a video is put on a speed boat to Singapore. A few hours after the final whistle blows, Singaporeans can watch the action

Filipino suckers

does Singapore.

■ It's come to Observer's notice that for some peculiar reason some Filipinos consider the British to be vampires. VAT in the UK is 17.5 per cent; but that's hardly bloodsucking. Evidence of this strange belief comes from the latest edition of the London-based newspaper Pahaygan, for expatriate

It says that a Philippines tabloid,

Superbalita, recently carried the story that police are investigating the arrival of a "shipload of vampires from England" which arrived in Lapulapu. The vampires "have landed and are now about their business in the cities of Cehu. Mandaue and Lapulapu. No arrests so far even though "several witnesses had come forward to say they had met some of them." What - and lived to tell the tale?

Will to win

■ On the day England's rugby team overcame world champions Australia, it is only fitting that the Prix de Diane Hermes (French Qaks) borse race at Chantilly should be won hy a filly called

Financial Times

100 years ago Quite a day at Rome They had quite a day at Rome

yesterday to celebrate the . opening of the nineteenth Italian Parliament, Charity, we are told. begins at home, but Italian reforms apparently begin abroad. if King Humbert's speech from the Throna may be taken as a criterion. To the lay mind it would seem more appropriate to promise that the domestic reforms would be set on foot at once, in the hope that thereby the credit of the country abroad would be re-established. It is with pleasure that we note in the Royal Speech the pointed references to the "intimate friendship" with Great Britain.

50 years ago Greek money reforms

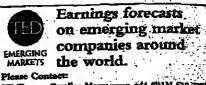
cant to 83 per cent.

From Greek Government sources has been received a full version. of the statement of M. Varvaressos, Greek Minister of Supply, on his Government's new economic policy. He said the main points were: state control over all industrial and agricultural undertakings collection and distribution of all goods to the public; decrease of State distributed food prices: stabilisation of the drachma; heavy and immediate taxation on war profits; readjustment of wages and increases from 50 per



FINANCIAL TIMES

Monday June 12 1995



Jane MacDonald +1212 296 0219 Tom Folimbee +827 1946

Microsoft may have met its match in fight over Windows

its match. The dominant world supplier of software programs for personal computers, with 1994 sales of more than \$5bn (£3.1bn), is facing the prospect of a bruising battle with US antitrust regu-

The Justice Department's anti-trust division has launched an aggressive investigation of Microsoft's moves to enter the fastgrowing market for online infor-mation services. It appears that the agency may be gearing up for a possible lawsuit to block Microsoft's plans to enter the online information services market

In August, Microsoft plans to launch Windows 95, a new version of its personal computer operating system used on almost which controls the basic func-tions of a PC, is expected to take the market by storm with tens of millions of copies to be sold over

Built into Windows 95 will be the software needed to access the Microsoft Network (MSN), a new online service providing software support, news, entertainment and communications capabilities.

Microsoft's critics charge that the company is using its dominance in the PC operating system market to gain an unfair advan-

US authorities gear up for Microsoft may have finally met lawsuit on online services

the offensive. The company

ests of consumers"

"pro-competitive and in the inter-

Neukom, Microsoft's senior vice-president for law and corpo-

"A capable company is making

a substantial investment to become a new entrant in a mar-

ket with huge opportunity for

expansion. We believe we can

improve on services that are cur-

rently available with better tech-

prices. This is exactly what the

US ought to invite, and ought to

That is not bowever the per-

spective of established online

such as America Online, Compu-

serve and Prodigy which are directly threatened by the Micro-

soft Network. Nor are Microsoft's

ambitions entirely welcome in

communications industries,

which fear that the software

giant may be invading their turf.

operating system for computers

"In the new digital world, the

nology and content and lower

"This ought to be an antitrust

vices field. Over the past week the Justice Department has issued formal requests for information from Microsoft and several other companies concerning

This is Microsoft's third, and potentially most serious skirmish with US antitrust regulators. The new investigation strikes at the heart of the company's ambitions to become the leading provider of services to facilitate electronic commerce, information distribution and communications.

This follows a Justice Department lawsuit that last month drove the company to abandon its \$2bn acquisition of Intuit, the leading publisher of personal

finance management software. Microsoft's first brush with the agency came last year, when after an exhaustive four-year probe of the company's business practices the Justice Department filed narrow charges relating to the terms under which Microsoft licenses its popular Windows program to PC manufacturers. To avoid a trial, Microsoft entered a consent decree. Court approval of the settlement is still pending.

Rather than await the outcome of the latest Justice Department investigation, Microsoft is taking president of America Online, the largest online service with over 2m subscribers. "You can't call anybody without going through the dial tone, and you can't use software or a service without going through the operating sys-

Microsoft responds that all it has done is to include in Windows 95 a program that will enable PC users to subscribe, if they wish, to MSN. The "purchase decision is entirely separate", Microsoft insists.

The company maintains that it has a "perfectly legitimate right to distribute access software for MSN in Windows 95. Nor do we believe it is our responsibility to include in our product access

code for ... competitors."
Yet Microsoft has been forced to back down in its previous battles with the Justice Department and in this instance it may also face pressure from its customers in the PC industry to find a compromise rather than risk a costly

delay in launching Windows 95. Over 150 PC manufacturers are gearing their production plans for the August 24 launch date of Windows 95, while bundreds of software firms are racing to introduce applications programs that run on the new operating system. The closer it gets to the launch date, the more difficult and expensive it will become for these companies to abort the

THE LEX COLUMN

IBM takes Notes

The extra \$200m IBM has put on the table to secure the co-operation of Lotus's management is money well worth paying. Without Lotus's agreement, the acquisition would probably have turned sour, leading top software programmers to defect. As it is, not only will Lotus's senior management remain; there is a fighting chance that the software engineers can be made to feel sufficiently happy to stay. Lotus gives IBM a leading edge prod-

uct at the centre of the next wave of computing, which is mainly about networking and communication. The computer giant has strong enough finances to push Lotus's flagship product, Notes, which facilitates collaboration between colleagues in a working environment. On its own, Lotus was struggling to support the development of both Notes and its older products, such as the 1-2-3 spreadsbeet programme. With Microsoft increasingly eleaguered by regulators, there must be some chance that an IBM/Lotus combination can make an impact in software.

There is still a question about how the cultures will mesh. On an optimistic view, the injection of Lotus will accelerate IBM's culture change. But the pessimistic possibility is that the much bigger group's staid culture will

There is also a big question over whether IBM's slow-moving sales force can be a success in marketing a fastmoving "shrink-wrapped" product.
This acquisition will be the test of whether Mr Lou Gerstner, IBM's chairman, can give Big Blue a new lease of life rather than merely manage its

Mergers and acquisitions Global takeover activity this year is np sharply on last year's already high levels. Competition has been intense in recent bids such as those for John Labatt, VSEL and Switzerland's Holvis pushing prices up. The return of the big deal is unsurprising. European and US companies have emerged from the recession with reconstructed balance sheets and resurgent cash flow. There is a lot of money to burn. Banks on both sides of the Atlantic have excess

But while the prices in some transactions look expensive, most of the big deals have some business rationale. Consolidation of UK cable television, as in last week's merger between TeleWest and SBC CableComms,

capital too, and are willing to lend at

wafer-thin margins.

should have substantial cost savings Pharmaceutical mergers also make good sense even if the rumoured bid for Zeneca looks unlikely; there are benefits from cutting out duplication in researching, developing and mar-

Ona may harbour doubts about whether IRM can really put more pizzazz into Lotus and worry that MCI's decision to sink \$2bn into Mr Rupert Murdoch's News Corporation was driven by a desire to buy an entrée to a more glamorous world. But even these deals have the veneer of indus-

Opportunistic financial predators have been absent from the latest wave of takeover activity because they are unable to achieve the same synergies industrial buyers hope for. Still, US leveraged buy-out funds are laden with cash. When they enter the bid-ding, investors should prepare to exit.

US funds

News that Calpers, one of the largt and most aggressive US pension funds, plans to export its breed of shareholder activism to Europe is likely to ruffle corporate feathers. But there is no harm in that. Many European companies pay insufficient atten-tion to shareholder interests.

The arrival of US fund managers could shake things up. Companies may complain at an invasion of brash Americans, but that is the price they pay for tapping the world's capital markets. With the proportion of US pension fund assets invested abroad doubling in the past four years and still rising, they are likely to become yet more assertive.

It is not only corporate feathers that will be ruffled; many bome-grown fund managers could be taken aback

by the sharper style. Big UK institu-tions are experts in the behind-the scenes approach. A quiet word of disapproval in the company broker's ear is their preferred tactic. They also think it more effective than confronta-tion. The Saatchi debacle — where US shareholders engineered the ousting of the company's chairman and damaged the business in the process - is a case in point. There is much to be said for the British style, but only if the velvet glove does indeed contain an iron fist. Too often it does not. Proponents of the softly softly approach might even recognise the benefits of harnessing a bit of US brashness to their cause. After all, the good guy/bad guy approach works a dream in police

TONY JACKSON:

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Usinor Sacilor

The delay in privatising Usinor Saci-lor, Europe's largest steelmaker, may-have been politically expedient given the French elections. But it will not belp the French treasury achieve the highest possible price when the group is sold this month. That is not the fault of its management which has made heroic strides. After a FFr4.8hn (\$600m) loss in 1993, the company posted pre-tax profits last year of FFr4bn, a substantial achievement even if half of this was generated through disposals. Productivity has improved bugely and the company does not require significant capital spending after heavily investing in modern plant. Strong cash flow and a modest capital injection at privatisation should leave the group without debt within two years. But the privatisation's timing is

poor. Steel stocks are suffering. Since their peaks last year, British Steel and Thyssen's shares have fallen 11 per cent and 18 per cent against their local markets. True, steel prices have risen strongly, but they appear to be losing momentum, as demand growth decelerates. Usinor is heavily dependent on the motor industry, which generates 30 per cent of the group's turnover. But during March and April, year onyear west European sales of new cars actually fell.

In France, still Usinor's biggest man ket, they phimmeted 12 per cent dur-ing April Moreover, Usinor is at a disadvantage against soft currency competitors in the UK and Italy. This does not mean the French steel group is a bad company, just that the price will need to reflect the challenging

HSBC Shanghai building opposed

Bank's 20-storey office proposal threatens bid to reclaim waterfront site

By Tony Walker and

Hongkong and Shanghai Bank's proposed development of a 20-sto-rey office block behind its old beadquarters on Shanghai's historic waterfront bas been opposed by city officials in a move that may dampen the bank's chances of reclaiming its former premises.

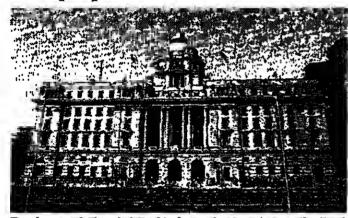
The bank argued that the high

price it would be obliged to pay to return to the Bund would not to redevelop the site.

But Mr John Gray, the bank's chairman, was told by city officials last week that such a large modern structure on Shanghai's famous Bund would be out of character with surrounding colonial era buildings and would therefore be unacceptable. Shanghai is seeking to revive

the Bund, on the west bank of the Huangpu river, as China's Wall Street in tandem with a financial district being developed nearby on the east bank. The city aspires to recapture its former glory as a financial powerhouse of East Asia. Officials make no secret of their ambitions to challenge Hong Kong.

Mr Hua Jianmin, the vicemayor of Shanghai who met Mr Gray, said s paramount consideration for redevelopment of the



Hongkong and Shangbai Bank's former beadquarters on the Bund. Shanghai's historic waterfront area

FT WEATHER GUIDE

sold by tender.

improve the price.

but not at any price.

in Hong Kong, the bank said it

was indeed interested in "getting possession" of the old building.

Bund was to preserve its character. High-rise structures in the Bund area risked "destroying the

City officials will not specify the cost of leasing the ornate, domed structure that served as Hongkong and Shanghai's beadquarters in China until the 1949 revolution, but a figure of about \$200m is being mentioned.

Mr Hua said the city was facing a "dilemma" because there were "too many bidders" for the

There were 10 bidders including foreign and Chinese banks and other companies. Mr Hua would not be drawn on details,

mental reasons because it was so much part of our business historically, and also for symbolic reasons. Our return to the Bund would reinforce the importance of China in our strategy, but clearly there are limits on price," said Mr Bob Sherbin, the bank's

spokesman.

Hongkong Bank has conducted a detailed study of the site and the structure of the decaying building - it has stood virtually untouched since 1949 - and has would be exorbitant. Representatives have told city officials that the high leasing price could not be justified without the site's extensive redevelopment.

but he indicated that a decision One compromise advanced by was likely by the end of the year. the Chinese was for the proposed He expects the structure to be 20-storey structure behind the existing premises to be made lower to bring it into conformity "The decision has to be made by market rules and commercial with the surrounding area.

rules." he said. The city govern-Since the revolution, the forment had decided against open mer Hongkong Bank site has been used as headquarters of the It is not clear how many of the Communist party in Shanghai institutions said to be bidding for and the municipal government. the property are serious contend-These organisations are due to ers. Shanghai may be exaggeratvacate the premises at the end of ing the level of interest to the month for a new building in the centre of the city.

Many foreign institutions have been eyeing premises in the Bund area among the 57 being offered for lease.

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With production of car and commercial vehicles projected to rise from 440,000 in 1994 to 740,000 in 1997, India is one of the world's fastest-growing automotive markets. So manufacturers critically need world class local suppliers. Bundy India, with two plants in the subcontinent, has accordingly transformed its businesses from supplying commodity tubing to manufacturing highly specialised fluid carrying systems. Its Pune plant, built to serve motor manufacturer teleo, has receotly won their prestigious quality rating - Bundy's brake and fuel lines now go "just in time" direct to Telco's assembly lines without requiring customer inspection. With Bundy's support, the Indian automotive industry can accelerate swiftly. Bundy is one of TI Group's three specialised engineering businesses, the others being John Crane and Dowly. Each one is a technological and market leader in its field. Together, their specialist skills enable



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Europe today

It will be not from Turkey towards Russia with temperatures reaching close to 35C

and isolated thunder storms in the late afternoon. Recurrent thunder will develop from the Black Sea to the Baltics. More sun is expected over Spain and Portugal although the south-west coast will have moderate temperatures as cloud drifts in from the Atlantic. The east coast of Spain will be cool and cloudy from the UK to the Low Countries and France. The Alps and Pyrenees will have rain, and showers are expected in the Low Countries and northern France. Five-day forecast

Cool moist air will persist over west Europe, maintaining cloud and showers from the UK towards France and Germany. South-east and eastern Europe will be hot with afternoon thunder. A boundary between hot and cool air will be marked by rain from the Alps across Poland to

LOW

TODAY'S TEMPERATURES

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MARKETS



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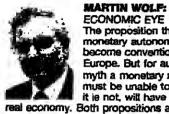
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Sacilor

TONY JACKSON: GLOBAL INVESTOR One good reason for feeling slightly queasy about US equities at present is the dividend yield; or rather, the lack of it. Not only are stock prices at record levels;

companies are also paying out less of their earnings in dividends. Companies have also been buying back their own stock in massive quantities. For bulls of Wall Street, this means the market is cheaper than it looks.



ECONOMIC EYE The proposition that national monetary autonomy is mythical has become conventional wisdom in Europe. But for autonomy to be a myth a monetary authority either must be unable to after policy or, if it ie not, will have no impact on the real economy. Both propositions are mistaken.

Russia's two-year-old government debt market is "the most successful project in the history of Russian economic reform", according to the deputy chairman of Russia's central bank. Page 24

Traders in London will have some important UK economic data to get their teeth into - notably retail prices, producer prices, average earnings and retail sales. New York awaits the figures on retail

EMERGING MARKETS: Two global equity offers in less than a month are awakening a wider interest in Portugal, Investors may be favourably surprised by what they find.

sales due tomorrow. Page 25

Events such as this week's G7 summit in Halifax, Nova Scotia traditionally produce little to impact on currency markets. But this time there are various reasons for caution, Page 23

COMMODITIES: By tomorrow morning the coffee market should have a better idea if last week's price setback is set to continue or to be recouped. Page 22.

INTERNATIONAL COMPANIES: VA Stahl, the Austrian steel group, has announced an eight-fold surge in first quarter operating profit to Sch853m (\$87m) from Sch102m a year earlier.

MGM Cinemas, one of Europe's largest film house chains, could be floated on the UK stock exchange within five years if the US backed consortium, which includes Richard Branson's Virgin Group, wins its £200m bid. Page 20

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Mr Christopher Heath - the founder of the Asian equities business which brought large profits to Barings bank in the 1980s and disaster earlier this year – has raised

Caspian, the new venture, will focus on the emerging markets of Latin America

markets and fluidity in the job market. It is a perfect time to be setting up," said Mr Heath, who intends Casplan to be fully operational by the final quarter.

hen Portugal raised \$936m earlier this month through the sale of 28.3 per cent of its telecommu-

nications monopoly, it brought to

around \$105bn the amount raised

through the privatisation of tele-

Yet an avalanche of new tele-

coms stocks is about to descend

on the international capital mar-

kets over the next year, with 11

operators - mostly European -seeking to raise at least \$30bn by

As telecoms operators jockey

for position in the growing queue for international capital, there are growing doubts over govern-ments' ability to get all this sup-

"If governments try to over-

price issues, they may find they

can't sell them - there will be so

many alternatives," says Mr Mur-

ray Davey, in charge of the Klein-wort European Privatisation

The operators that are expected

to come to the market over the

next year include Germany's

Dentsche Telekom, Italy's Stet,

Telefonica of Spain, KPN of the Netherlands, Israel's Bezeg, SPT

Telecom in the Czech Republic,

Hungary's Matav and Indonesia's

PT Telkom, France, Sweden, Australia, Turkey, Ireland, Peru, Sri Lanka and Venezuela are also

considering privatising their

state-owned telecoms operators

Privatisation offers govern-

ments the opportunity to foster

efficiency, commercialism, cus-

tomer-orientation and entrepre-

neurial attitudes in their domes-

tic telecoms operators. It is also seen as evidence of economic

good management, by moving

this fast-growing business out of

Privatisations can also be highly lucrative for the invest-

ment banks that co-ordinate the

share sales. Total fees on Euro-

pean privatisations - including underwriting and distribution -

are around 3 per cent of the

the hands of civil servants.

within the next 18 months.

Operator

Matey (Hungary

Belgacom Bezeq (Israel)

OTE (Greece)

Telefonica D'Espana

Stet (Italy) PT Telkom (Indonesia)

Dautscha Talekom

Telkom (South Africa)

amount raised. The partial priva-

tisation of Germany's Deutsche

Telekom, due next year, is expec-

ted to raise some DM15bn (\$10.4bn), and could generate a total fee pool of up to DM450m. If

telecoms sales succeed in raising

\$30bn over the next year, that

means around \$900m in bankers'

So far, most telecoms issues

have proved attractive to inves-

tors. The cash flow from telecoms

tends to be strong, generating steady and predictable profits in

their home markets. British Tele-

communications's dividends, for

since its privatisation in 1984.

example, have grown every year

They represent a nice mix of

stability coupled with growth

prospects which other utilities

such as gas or electricity don't

offer," says Mr John Yeomans of

In the short term, at least, tele-

coms operators look to be a prof-

itable investment. New technolo-

gies are likely to boost operators'

husiness, allowing them to

expand services beyond tradi-

tional voice telephony to an

SPT Telecom (Czech

coms operators since 1984.

share sales.

ply away smoothly.

to revive a career which surged from 1984, when he became founder and managing director of Baring Securities, Barings' as chairman of the subsidiary in 1993.

sale of the businesses to Internationale Nederlanden Group, the Dutch bank. Internal Barings auditors criticised

Forthcoming Telecom Privatisations

is murky.

checks and balances at Baring Securities but associates of Mr Heath maintained that the failure could not have occurred

Caspian is developing a global informa-tion system with Andersen Consulting, the that we have will make for a very secure

tors led by National Finance, the investment bank owned by Siam Commercial Bank of Thailand, which is believed to be subscribing for a 10 per ceot stake. A further \$200m will be raised as required, Cas-

3Q 1995

30 1995

4Q 1995

'If governments

try to overprice

issues, they may

find they can't

sell them - there

will be so many

alternatives'

Mr Murray Davey, Kleinwort

European Privatisation Fund

there's a real danger that if you

allow totally free competition,

the market could suffer from

kets are likely in be better pre-

pared to compete than those from

scrambling into global alliances

with operators who would other-

wise be rivals. But with competi-

bon heating up in all sectors of

cable, cellular, global telephony -

there is a danger that these alli-

ances will prevent some opera-

tors from developing a clear

strategy. "Telecoms operators

will have to decide wbether they want to compete in all areas,

form alliances and compete in

the communications industry

oversupply."

1998.

market to broader participation, other operators' markets, or

Equitable Life, the UK life insurance company, is taking a 10 per cent stake. Other financial backers include Caledonia Investments and Scottish Eastern Invest-

ment Trust.

Mr Heath is also investing part of the personal fortune he built up in the late 1960s when he was the highest paid executive in the City, earning £2.5m in 1987. Mr Heath, who will be Caspian's chief execu-tive, and other executives are contributing \$5m for a 10 per cent shareholding. He is joined by former colleagues from Baring Securities including Mr Simon Loopuit, Mr Jim Reed and Mr Bobby Betack, who bave resigned from senior positions at Nomura International

market

By Christopher Price in London Only between 10 and 20 companies will begin trading on the Alternative Investment Market when the new junior market opens for business on June 19. AIM is replacing the 4.2 matched bargain market and the

Unlisted Securities Market. The constituent companies of these -some 450 - must move to AIM, the full list or go off-market. Few companies will be trading oo the opening day because of delays in the processing of the

documentation for companies wishing to join, caused by the need to comply with recent European Union proposals on new

The official application documents were only made available last week. The London Stock Exchange, which devised AIM and which will be responsible for snpervising the market, has extended the life of the 4.2 beyond its June 19 expiry date for a further three months. The USM is due to terminate next

Besides picking up most of the companies from the two expiring markets, AIM hopes to fulfil one of its original premises: to attract and he a vehicle for young dynamic private companies that need to raise capital. No new companies will be among the AIM debutantes, which are all drawn from the 4,2 market. Only one intends to raise some

equity capital. AIM's development has been dogged by the frostmess of some institutional investors who are concerned over the joining regulations that some fear may lead

to poor quality companies.

However, moves hy the
Exchange to bolster the role of
nominated advisers as well as a rigorous approval procedure for the advisory role, have placated many sceptics.

The Exchange also plans to fine companies that breach AIM rules. Ms Theresa Wallis, head of the AIM development team, said that the fines system would answer adviser concern on polic-

The fine clarifies that it is the

Christopher Heath plans new venture

Lines to investors buzz

Type of offer! Amount

with avalanche of issues

array of multimedia products and

While short-term rewards

becken, the medium-term outlook

Mr Scott Mead, a managing direc-

tor at Goldman Sachs, says:

dictability of regulatory direc-

tion, technological change, con-sumer preferences and industrial

his leaves many investors puzzled. "Will daregulation and competition

mean telecoms companies' mar-

gins will keep shrinking?" asks

Kleinwort's Mr Davey. "Or will

growth of the new sides of the

The trend towards deregulation

will open opportunities for tele-

coms operators, particularly out-

side their domestic markets. But

if they are not prepared for com-petition, deregulation could mean

getting crushed by more power-

KPMG'e Mr Yeomans said:

"While it's important to open the

business make up for that?

There is no guarantee or pre-

\$50m in set up an investment group.

and Asia but will cover corporate finance, asset management and stockbroking.
"There is a correction in the emerging

The project marks an effort by Mr Heath

dynamic stockbroking arm, but then stalled. The Japanese equity market collapsed in 1990, Baring Securities suffered losses in 1992, and Mr Heath was forced to resign Mr Heath is launching Caspian in the shadow of Barings' collapse in February when Mr Nick Leeson, a trader in Singa-pore, lost £860m (\$1.35bn) on futures and

options contracts on Japanese shares, wiped out the bank's capital and forced a

under his regime.

computer consultants. Mr Heath said: Risk management and the technology environment.

Mr Heath has attracted \$50m from inves-

Conner Middelmann assesses the privatisations of telecoms groups around the world remain focused on defending their bome market," says Mr

> Even those that survive in the race for telecoms supremacy may not be able to offer investors the ever-increasing dividends they have become accustomed to.

BT's dividends, for example, cost the company £1.1bn (\$1.72bn) last year. Shareholder pressures for higher dividends were bearable wbeo capital expenditure was lower, but "now that capital expenditure and other investment is increasing at bome and abroad, such that it could more than double over the next few years, the pressures are unlikely to prove hearable," says Mr Laurence Heyworth, telecoms analyst at stockbrokers Robert Fleming. "Something will give - most probably the rate of dividend

Telecoms companies in less developed nations offer particularly attractive growth opportunities - although the risks are com-mensurate. "Emerging market operators offer great prospects Operators from countries such as the US which have already deregulated their telecoms marbecause there's growth as far as the eye can see, though admit-tedly political and regulainry risks are much higher there than in most developed countries,"

countries only beginning the pro-cess. Many European countries fall in the latter category, with says Mr Peter Golob, head of S.G. Warburg's telecoms team. Some investurs see liquid telethe EU enforcing competition in coms stocks in small, emerging markets as useful proxies for a telecom services by January 1, country's underlying economy. The spectre of increased comespecially as telecoms companies often mirror these economies' petition has sent many of the world's telecoms operators fortunes.

However, the proxy argument has a flipside: "If the market suffers a bout of selling, as these markets often do, everyone dumps the most liquid stock first," says one fund manager. "In the near term, the flood of

issues could weigh on prices," says Kleinwort's Mr Davey. "But in the longer term, those companies with up-to-date technology and good management will see their success reflected in their

Last week, a survey by BDO Stoy Hayward, the accountancy firm, showed almost four out of five Institutions expected to invest in the new market.

company and not the nominated adviser which is responsible for complying with the rules," she

This week: Company news

NOKIA Mobile phones prove handy for

surging shares Nokia's shares broke through to new highs last week and its profits will probably repeat the feat this Friday. when the Finnish telecommunications group announces its figures for the first

A continued surge in sales of mobile phone infrastructure and handsets is . powering the upturn, even though prices and margins are under pressure. Analysts are looking for pre-tax profits of FM1.4bn (\$325m) to FM1.6bn for the period, after FM969m last year, with full-year profits of around FM5.5bn after last year's FM4bn total.

Optimism about the figures as well as the group's success in gaining orders for Personal Communications Systems in the US are behind the rising shares. Nokia has already bagged around FM1bn worth of PCS business but there should be more to come.

Telecoms-related businesses now

account for an estimated 90 per cent of Nokia's profits and 70 per cent of sales. The telecommunications and mobile phone divisions are growing by around 50 per cent a year, its other operations are either growing more slowly or are being sold. The group now has 20 per cent of the handsets market, making it the world's second largest mobile phone maker after Motorola of the US. The main non-telecommunications business Consumer Electronics, has suffered heavy losses in recent years but returned to profit in the last part of 1994. Analysts will hope the improved-

trend has been maintained. Strong four-month figures are expected from many of Finland's big industrial groups. Amongst the companies reporting this week are: Metra, the diesel engine manufacturer (today); Kemira, the chemicals group (tomorrow); Rautaruukki, the steel concern (Wednesday); and pulp and paper manufacturers Metsä-Serla and Enso-Gutzeit (Thursday and Friday respectively).

Share price (SKr)

JAPANESE LIFE ASSURERS Sector united in losses from sluggish market

Japanese life assurers are scheduled to announce their annual earnings results this week. . The companies have been hit by the

negative spread between their investment returns and dividend payouts due to the decline in interest rates and the sluggish stock market. and the industry saw an investment return on assets of around 3 to 4 per cent while paying out policy dividends averaging 5.5 per cent.
Of the leading life insurance companies, Chiyoda Mutual Life and

Toho Mutual Life are expected to have posted current losses for the year to last March, along with four smaller companies. It will be the first time in post-war history that more than one of the country's life insurers have posted losses on the recurring level.

Although the ability of the companies is not expected to be jeopardised by the losses due to reserves, dividend payouts which they offer on future policies may need to be lower than those paid by other companies. The leading eight life assurers incurred negative yields on accounts

through which they manage corporate

pension funds and tax-qualified pension Last year the sector lifted premium revenues but a sluggish domestic bond market, smaller interest and dividend income and low interest rates hurt returns on investments.

OTHER COMPANIES Paper group keeps tactics up its sleeve

Buccaneering US-style takeover battle tactics will be on display today in Basle, as International Paper pleads before a civil court for injunctions blocking a couple of poison pill contracts between the Holvis nonwovens and paper distributing group, which it covets, and the highest bidder, BBA of the UK. IP, which has also called for a Holvis shareholders' meeting to throw out the board, claims it has further legal moves

■ Compagnie de Suez: The flagship French industrial and financial bolding company holds its annual general meeting on Wednesday amid intense speculation about hids or financial restructuring.

The group, which reported losses of FFr4.7bn (\$950m) in 1994 and property write-offs of FF17.6bn, has admitted that it has been in contact with Mr François Pinault, chairman of Pinault Printernys Redoute, the French retail conglomerate but denies any specific

■ Sandoz: The Swiss chemicals and health products group will on Thursday reveal the price range for bids for shares of Clariant, the industrial chemicals company being spun off. Figures ranging from SFr400 to SFr450 for the 4m shares in the 100 per cent IPO have been mentioned. But the whole process could still behalted if simultaneous

Northern Foods Share orice (pence)

negotiations with potential trade buyers succeed.

Northern Foods and Unigate: Two of the UK's largest food processors will update investors this week on their efforts to restructure dairy operations and to deliver their year-end results. Northern has already said it is taking a f91m charge, f59m of which will go on dairy and chilled dairy products. Unigate will be hard pressed to better the pre-tax profits of £113.5m (\$178m)

■ FKI: The UK electrical engineering and electronic components group is expected on Wednesday to report increased annual profits of about 270m (\$110m), compared with £52.3m, following strong growth by its materials handling and hardware divisions. Those two businesses, based mainly in North America, have been the group's first to achieve double-digit

Companies in this lasue

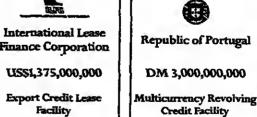
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GE Capital

combered as a	288 184			
Airbus	6	HBSC	18	Renison Gold Field
Ampolex	21	IBM	1	Royal Dutch/Shell
Attwoods	20	П	21	Saurer
Barings	19	Kone	21	Soda Ash Botswar
Boeing	6	Lotus Development	1	Star Mining Corp
British Aerospace	20	MGM Cinemas	20	Total
Browning Ferris	20	McDonnell Douglas	6	Usinor Sacilor VA Stehl

21 Botswana 21 COTD VA Stahl 21 20 VSEL Virgin Group 20

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7

Irish Telecommunications

1

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Senior Acquisition

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Inntrepreneur Estates Limited £800,000,000

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IR£100,000,000 Revolving Credit Facility Joint Arranger



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COMPANIES AND FINANCE

MGM Cinemas may float within five years

By Peggy Hollinger

MGM Cinemas, one of Europe's largest film house chains, could be floated on the UK stock exchange within five years if the US backed consortium, which includes Richard Branson's Virgin Group, wins

This appeared increasingly likely over the weekend as the Philadelphia-hased Reading company, which is the consor-tium's majority stakeholder, negotiations for the cinema chain with vendors Crédit Lyonnais.

appears to have fought off rival bids from Michael Green's Carlton Communications, the former favourite to huy the chain, and Rank Organisation.

break down, Carlton is likely to re-emerge as a front runner in the bidding for Britain's largest cinema chain, which comprises 102 cinemas and 18

The consortium is understood to be confident of clinching a deal within a month. It plans to appoint Mr Boh Smeriing, former president of Sony Theatres and now head of Reading Cinemas in the US, to lead the new company which will be set up after the pur-chase is completed.

An insider said flotation in

the UK would be a possibility within three to five years. Reading, and its 47 per cent stakeholder Craig Corporation. had a history of holding investments in publicly-quoted companies, he said.

The consortium has also

about £100m in senior debt provided by Crédit Suisse and a tranche of subordinated deht arranged by CS First Boston.

The consortium partners will be expected to put up about 30 per cent of the £200m purchase price. Reading will hold a majority stake, with the Virgin group as a substantial minority shareholder.

They are understood to have arranged financing as part of the purchase deal to build a furthar 10 to 12 multiplexes throughout the UK within five years. It has not yet been decided whether the cinemas

will carry the Virgin name. The French bank took over the cinema group in 1990 after calling in loans made to the Italian financier, Giancarlo Paretti, who hought it for

BAe considering response to GEC in VSEL bid battle

Correspondent in Paris.

decided whether to increase its hid for VSEL, the submarine maker, in response to GEC's £21.50p a share bid last week. Senior management at BAe

said they would considertheir future course of action when they return from the Paris Air Show at the end of the week. We are here in Paris to sell aircraft and to win an order for

the UK attack helicopter competition, not to dehate the VSEL bid," said Mr Richard Lapthorne, finance director. BAe has plenty of time to decide what it will do.

It has not yet posted its cur-rent offer of 3.3 shares for every VSEL share, and has 46 days after it does to increase it. Analysts are divided as to whether BAe will continue the bld battle against GEC's attempted knockout.

risk its renewed reputation for financial prudence by pursuing



Richard Lapthorne: in Paris selling aircraft, not debating VSRL

more to BAe than to GEC. If BAe does choose to return to the table it is likely to discuss it with shareholders to

ensure their backing. Analysts were surprised that BAe's shares had not fallen further in response to GEC's bid for VSEL. "There is strong buying support because of the earnings recovery under way in this stock, which should

 BAe is extending its alliance with the Franco-German Eurocopter Group. The BAe-Eurocopter team is offering the Tiger helicopter in the current £2hn UK attack helicopter competition, and the two will also team on the NH90 transport helicopter. The Department of Trade and Industry has called for alliances between companies competing for the attack

Cable on the verge of the big time

capital requirements Britain's cable companies are suddenly enjoying a positive news flow which is being reflected in their previously sagging share prices. Analysts are now wondering if the sector could be about to undergo a

What may in future years be seen as a defining moment came last Thursday, when TeleWest and SBCC, the big-gest and fifth largest cable operators, unveiled a £689m

re-rating.

It was the most significant move yet in the consolidation taking place in the industry and the 6p rise that day in TW's shares to 169p edged the US-owned group aver closer to its November flotation price of

There was further good news on Friday when Nynex Cable-Comms, Britain's second biggest cable group, achieved a listing price in the middle of its forecast requirement, defying sceptics who had predicted a lower price as had happened with previous cable floats. Analysts attributed the success partly to the TeleWest/SBCC deal which, among a number of positive aspects, removed another big potential flotation candidate from the scene.

At a stroke, the TeleWest/SBCC merger created a company valued at £2.4bm and nearly twice as big as its nearest competitor. It also pushed the new TeleWest into the diture and plant, property and

Attwoods, the waste manage-

ment company taken over by

Browning Ferris Industries of

the US in a £391m hostile bid

last year, could receive

up to a further \$9.4m (£5.98m)

following the sale of the UK

company's German busin-

the portable sanitation, accom-

modation and office businesses

for \$56.8m to an investment

group backed by CVC Capital

It said it could receive up to

a further \$9.4m following a Rice-Davies.

German bonus for

Attwoods investors

Former shareholders in financial audit, which it expec-

£364m.

tion which will bring the benewould sink a small bank. Yet fit of greater liquidity in the group's shares as funds track-ing the Index take an interest in the group.

The merger also put a distinct value on one of the industry's leading private companies - SBCC being owned by Southwestern Bell and Cox Communications - and should focus investors' minds on just what value should be attached to the previously under-researched

For companies which rely on future revenue growth, analysts have traditionally used discounted cash flow models estimating revenues at a point in the future and then discounting back to arrive at a valuation. However, as the cable companies have begun to construct their fibre optic networks, build up their asset bases, and generate revenues more realistic forecasts using different valuation criteria are being used.

ne of the most favoured methods, and the one used by S.G. Warburg in advising Nynex on its offer price, is the so-called read across valuation, which allows comparison between the six quoted cable groups and helps give an implied value to the others.

It is calculated by taking the market capitalisation of a company and adjusting it for cash and borrowings. Capital expen-

ted would be concluded within

remit to Attwoods' sharehold-

ers the proceeds in excess of

\$56.8m which it received on

BFI, one of the world's larg-

est quoted waste companies,

won its three-month battle for Attwoods in December when it

raised its cash offer from

The company was founded

by Mr Ken Foreman, husband

of the former model Mandy

the sale of the businesses

They lose millions of FT-SE Index of Britain's hig-pounds a year. Their gest 100 companies, a promo-Christopher Price discovers the sector may undergo a re-rating after its defining moment

> equipment investment are then read across valua as \$478 per deducted. The figure that is left is the "goodwill" value of the group, the value the market is putting on the future revenues. Dividing this by the number of houses in a framchise gives the read across val-

Some analysts have expressed disappointment at the relatively high churn rates experienced by some operators

This method awards a higher basic valuation to those companies which have laid more of their fibre optic networks. Less network built implies a lower

For example, the share price of TeleWest, which has just under 40 per cent of its network built, gives a value per home of \$530, according to fig-ures from S.G. Warburg. SBCC, which has built slightly more of its network, received the same value under the terms of the merger, reflecting the dominance of TeleWest in the new partnership.

For the other quoted companies, Warburg calculates the marketing ability.

home for Comcast, Bell Cablemedia on \$443, Videotron on \$404. Nynex on \$874, General Cable on \$354 and International CableTel, the cheapest with only 13 per cent of its network built, on \$374.

Premiums and discounts to this valuation method are put on a company for a number of reasons. The degree of control a company exerts over its franchise areas is seen as impor-tant, particularly as consolida-tion in the industry gathars pace. SBCC, for example, had 100 per cent ownership in its franchise areas, giving it a pre-mium rating. General Cable, on the other hand, shares many of its areas in partner-

ship with other operators. Where the shares are listed will also be a factor in valuation. Those listed on the London market, as well as in the US. will be afforded a higher rating as the shares are likely to have greater liquidity and greater cash-raising possibili-

Quality of management is another factor and the pedigree of the parent companies, many of which are US-owned with experience of the US cable market. A company's churn rate - the rate at which customers do not renew subscriptions - is also an important factor, reflecting a company's

companies are re-rated will depend a lot on the flow of industry data. Some analysts have expressed disappointment on the rate of growth of the industry, and at the relatively high churn rates experienced by some operators. This, conpled with the fact that the mar-ket is suffering from indiges-tion due to the flood of cable flotations in the past 18 months, has contributed to the underperformance of the secCapital to be

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30m in placement

Acres Securities

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Only last week, BZW down-graded its forecast for the number of cable television subscribmontinental declina ers for the year 2000 from 40 per cent of homes to 82 per

It revised its industry valuation from £7.9bn to £7.1bn, and downgraded its valuations on the quoted cable companies by between 5 and 19 per cent. The broker made its cuts after research showed cable tv penetration had stuck at 22 per cent for the past three years.

Quarterly figures from the

Independent Television Commission, last week, showed that cable continues to suffer from poor marketing, with only 21.4 per cent of homes passed by cable actually asking to be connected - 963,000 out of a total of 5.165m. With statistics like this, the sector may have to wait a little longer for its re-rating.

	CROSS BORDE	R M&A DEALS		
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Interbrew (Belgium)	John Labatt (Canada)	Brewing	£1.25bn	Agreed bid beats Onex
Schwarz Pharma (Germany)	Central Pharmaceuticals (US)	Pharmaceuticals	£112m	US package part of
Schwarz Pharma (Germany)	Unit of Reed & Carrick (US)	Pharmaceuticals	£73m	non-Europe chive
Arjo Wiggins Appleton (UK/France)	Newton Falls (US)	Paper	£37.7m	Buy from Sweden's Stora
Northern Foods (UK)	Green late (Ireland)	Food	£25m	Stake raised to 79%
Blockhuster (US)	Grupo Mexicano de Video (Mexico)	Entertainment	£22m	Acquiring 80%
Securicor Services (UK)	ASD (Germeny)	Security services	217.8m	Develops German strategy
Homestake Mining (US)	Navan Resources (Ireland)	Mining	£15.2m	Stake plus option
Wellmans (US)	Unit of Akzo Nobel (Netherlands/Sweden)	Plastics	n/a	PET project for buyer
Babcock International	Ralicare (JV)	Engineering	n/a	Heavy main-

Some argue BAe should not Others point out that tax help if it returns with another

Corporate Finance

Valuable insight Invaluable advice

West LB Westdeutsche Landesbank (Girazentrale) A.G.

> has acquired control of

Banque d'Orsay

Coopers & Lybrand acted as lead advisor to

West LB.

Corporación Financiera Reunida, S.A.

COFIR

has acquired control of

Grupo DAGESA

Coopers & Lybrand acted as advisor ta

Corporación Financiera Reunida, S.A.

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TRADITION - EXPERIENCE - DYNAMISM

ROBER MEMORIA

To Reuter Form

The Financial Times an stablished a new visiting University in memory of distinguished Financial Tur

ded last year. The Robert Mauthner lournalists from Europe opportunity to spend three thoice at Oxford, as me Frogramme based at Green

The annual fellowship is of My EU country, who distin merpreting economic, political

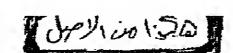
European Union. Buccessful candidates are

45. Study projects will be Procedure. Fellowships w months) starting in O

Applications will close on वीर्ष more information may The Director

The Reuter Foundation ^{85 Fleet} Street. London E.C.

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GE Capital to buy life activities of **American Express**

NEWS DIGEST

GE Capital, the financial services arm of General Electric of the US, is buying the life assurance business of American Express, writes Maggie Urry in New York. Terms were

not disclosed, but the two said the deal would not materially affect their earnings. The business changing hands earns annual premiums of \$460m, of which \$337m come from Americo's long-term care insurance business. Other lines include long-term disability, accidental death, and corporate owned life insurance. Amexco is keeping the insurance businesses relating to its charge card activities, such as annuities and travel insurance.

The deal "will propel GNA into a position of leadership in the rapidly growing long-term care market" and add add \$1.60n of assets, bringing GNA's total assets to \$18.60n.

Pancontinental declines to recommend offer

Directors of Pancontinental Mining, which has heen fighting a bid worth about A\$500m (US\$380m) from Renison Gold Fields, another Australian mining group, has declined to make any firm recommendation to shareholders, writes Nikki Tait in Sydney.

Renison controls of 50 per cent of its target and has declared its offer unconditional. However, QBE, the Australian insurer, holds over 10 per cent of Pancontinental's shares, and has indicated that it will not accept the bid meaning that Renison cannot compulsorily mon up all minority holdings. Pancontinental has outlined three options

for remaining shareholders - to accept the offer, to sell shares in the market, or to remain as a Pancontinental sharebolder, but said "each entails potential risks and rewards". Your directors are continuing to discuss with Goldfields (the Remison bid vehicle) the reconstitution of the board of directors to ensure appropriate representation for Goldfields and for minority interests," they added.

Star Mining raises A\$50m in placement

Star Mining Corporation, a small Australian company, has taken another important step towards developing Sukhot Log in Siheria, the world's biggest known gold deposit. NatWest Securities and County NatWest Securities Australia have placed with US and UK institutions 200m Star shares at 25 cents each to raise

A\$50m gross, writes Kenneth Gooding. Star owns 35 per cent of Lena Gold, a Rus-

sian joint stock company that has the rights to Sukhoi Log.

It is unofficially estimated that development of the first stage of the project will cost between US\$400m and US\$500m. Star is obliged to provide US\$250m towards this in the next 18

Mr Stephen Fabian of County NatWest said the placing would enable Star to cut the out-standing obligation to about US\$200m and would add weight to the company's case in further negotiations with the Russians. Investor interest in gold operations in the former Soviet Union had increased recently and the issue was oversubscribed.

Star previously raised A\$15m at 36 cents a share in December.

A feasibility study on Sukhoi Log was due to be completed this month but there were delays in gaining access to some geological informa-tion because the deposit was deemed a "national treasure" by the Soviet authorities and these details were a state secret. Mr Fabian said this problem had been overcome and the study should be ready in September.

Wesfarmers to divest 'non-core' businesses

Wesfarmers Bunnings, the Perth-based agricultural products and natural resources group, plans to divest its "non-core" manufacturing businesses, writes Nikki Tate in Sydney.

These comprise Du Fen Metal, which makes steel products for the housing industry; The Roofing Centre Group, which also services the housing industry; and a shareholding in Ster-lands, a New South Wales-based manufacturer of wall frames and roof trusses.

Ampolex court move on convertible notes

Ampolex, the Australian energy company, said that it was beginning court proceedings, in an effort to get a declaration that the proper con-version rate on its convertible notes was onefor-one, writes Nikki Tait.

This is being challenged by Sir Ron Brierley's Guiness Peat Group, which claims that the original trust deed indicated a 6.6-to-one ratio. However, Ampolex maintains that various subsequent documents made plain that the one-to-one ratio was intended.

Aircraft alliance named

The new British, French and Italian alliance of regional aircraft manufacturers is to be called Aero International Regional, or Air, writes Michael Skapinker in Paris, Mr Nino D'Angelo, an Italian, will fill the rotating presi-dency during the first year of the venture, which British Aerospace, Aerospatiale of France and Alenia of Italy will begin operating

COMPANIES AND FINANCE

Big jump in profits at VA Stahl

By Eric Frey in Vienna

VA Stahl, the Austrian steel group, has announced an eightfold surge in operating profit in the first quarter of 1995 to Sch853m (\$87m) from Sch102m a year earlier. The result brightens the prospects for the privatisation of the stateowned company, which is scheduled for the early autumn.

The company's chairman, Mr Peter Strahammer, told a news conference that sales in the first quarter advanced by 23 per cent to Sch11.1bn from Sch9bn. Price increases of up

to 10 per cent for VA Stahl's main products also beloed

Based on first-quarter results, analysts expect fullyear operating profit to climb to a record Sch2.4bn from Sch1.3bn in 1994. Mr Strahammer confirmed

that the state holding group OIAG will sell at least 51 per cant and perhaps as much as 74 per cent of VA Stahl in Sep-tember or October through a public share offering. The exact amount will depend on the market conditions, be said. The timing of the issue has been in doubt because OIAG

By lan Rodger in Zurich

emboldened by recent battles

over Union Bank of Switzer-

land and non-woven fabrics

group Holvis, continue to flex

Mr Melk Lehner has resigned

as chief executive of the loss-

making textile machinery

group Saurer only two days

after a large minority share-

holder won the support of the

annual meeting for a change in

Mr Lehner blamed a "relent-

less media campaign" for his

withdrawal, but the key move

came last Wednesday when BB

Industrie, an investment fund

with 22 per cent of the shares,

won support at the annual

their hitherto flabby muscles.

Swiss

strategy.

shareholders,

wanted to avoid a clash with the privatisation of the giant French steel group, Usinor Sacilor. But as Usinor's share offering is scheduled to be completed by July 4, the lead managers believe that by the end of the summer there will

be sufficient demand for VA

Stahl shares. Earlier this year, the privatisation share offering of Boehler-Uddeholm, the speciality steel maker, had to be cut down sharply because of a weak stock market.

Beside bringing cash into the state's coffers, the share offering should also boost VA

Saurer chief executive quits

nees to join the board.

backing Mr Lehner.

meeting for two of its nomi-

Mr Carl Hahn, a former VW

chief executive and Saurer's

chairman, sensed the change of

mood, and suddenly there were

five of nine directors backing

RBI instead of four of seven

BBI, formed only a year ago,

has been concentrating its

efforts on reducing hostilities

between Switzerland's two

largest textile machinery pro-

The two dominate the world

spinning machine sector but

have engaged in a bitter battle

for market share, resulting in a

30 per cent erosion of some

prices in the past three years.

has lifted its Saurer stake to 22

In the past few months, BBI

ducers, Saurer and Rieter.

Sch3bn to Sch3.3bn and increase its equity ratio from 30 to 40 per cent.

Total debt is set to fall from

Sch6bn to below the total cash flow for 1995, which is esti-mated at Sch4.5bn. However, plans to rescue a

loss-making VA Stahl steel pipe plant at Kindberg in the province of Styria hit a snag following reports that a Rus-sian steel group has cancelled its plans to buy a 26 per cent stake in the factory. A closing of the plant would cause the loss of 700 jobs in an economically depressed region.

per cent, surpassing that of Mr Tito Tettamanti, who tried unsuccessfully to merge the

two. Although Mr Tettamanti

has only 16 per cent of Saurer,

his nominees until last week

Swiss investors will be press-

ing for a generous buy-hack

offer at Wednesday's annual

meeting of Merck AG. the Swiss holding company for

most of the international

operations of German pharmaceuticals group E. Merck. E. Merck intends to make an

initial public offering of its

own shares in the German

market in the autumn and at

the same time bid to buy back

the 16.6 per cent of Merck AG

Meanwhile, another group of

controlled the board.

are sold. ITT said net proceeds 'approximated book value". ITT said total cash gener ated by the disposal of ITT Financial came to \$13bn. It would not disclose the net proceeds, but the figure is believed to have fallen slightly sbort of the \$3.3bn to \$3.5bn

ITT sells

remainder

division

By Richard Tomkins

In New York

of financial

ITT, the US conglomerate, has

completed the disposal of its ITT financial division by

agreeing the sale of the three remaining businesses in sev-

eral transactions generating

Net proceeds will be much lower because the gross figure

makes no allowances for debt

remaining after the businesses

gross cash proceeds of \$5.5bn

the company had boped for.
The disposal of FTT Financial began in September last year when ITT announced that it was selling its financial services operations to fund an expansion of its hotel, leisure and entertainment interests.

The divestment has involved 20 separate transactions culminating in the latest agreement with a number of buyers to sell the assets of ITT Residential Capital, a mortgage lender; Lyndon Insurance's reinsurance business: and ITT Financial's portfolio of real estate loans and properties, mainly in southern California. Separately, ITT strongly

denied a US newspaper report that ITT and Mr Barry Diller, the US entertainment industry executive, had come "within a whisker" of buying CBS, the television broadcasting net-work, for about \$5bn in cash.

The New York Post said the deal fell through because Mr Lawrence Tisch, CBS's chairman, "wanted too much." But ITT dismissed the report as absolutely fictional". Last year ITT was widely

believed to bave approached General Electric about a possible purchase of GE's NBC television network, but no deal materialised.

Soda Ash Botswana in

By Kermeth Gooding, Mining Correspondent

liquidation

Soda Ash Rotewana a \$500m venture that started up as recently as 1991 and in which Anglo American Corporation of South Africa has a substantial stake, has been put into liquidation. It employs 452 locals and 114 expatriates and has been contributing about \$20m a year in export sales.

AECI, another South African company, formerly known as African Explosives & Chemicals and which has been managing the project, said SAB had been incurring operating losses and had required substantial financial assistance from shareholders.

Analysts suggest the share-holders had to inject another 300m puna (about \$108m) during 1992 and 1993. AECI said SAB's cash shortfall in 1994 was 106m puna and

this was budgeted to rise to 171m puna in the current year. Private shareholders - AECI with 26.5 per cent, Anglo American and its De Beers unit, with 12.5 per cent each had been negotiating with the Botswana government, owner of the other 48.5 per cent, and SAB's bankers but had failed to agree on a restructuring and refinancing package.

Kone down at four-month stage The group also disclosed that both elevator sales and new By Christopher Brown-Humes it is in talks to sell its remainorders would have been nearly

in Stockholm

Kone, the Finnish lifts group, blamed "extremely tough" price competition and the stronger markka for a 9 per cent drop in profits in the first

four months of this year.

Profits after financial items
fell to FM67m (\$15.43m) from FM74m, even though its figures were boosted by last year's acquisition of Montgomery, the US elevators group.

ing non-elevator divisions, Kone instruments and a steel foundry. It has already sold its cranes, wood, and shipboard handling equipment units.

Lift sales rose to FM2.61bm from FM2.34bn, helping to increase total group sales to FM2.68bn from FM2.48bn. Orders for lifts increased to FM2.2bn from FM2.1bn.

Excluding a 15 per cent rise in the value of the markka,

5000

30 per cent higher than in 1994. Kone said Montgomery which cost \$280m, had made a significant contribution to its figures, accounting for about two-thirds of sales and growth in orders. However, the impact of the

acquisition was reduced by increasing competition "in all market areas" and lower demand in important markets, such as France and Italy.

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The Reuter Foundation FINANCIAL TIMES on Wednesday, June 28th

ROBERT MAUTHNER **MEMORIAL FELLOWSHIP**

The Financial Times and the Reuter Foundation have established a new visiting fellowship for journalists at Oxford University in memory of the late Robert Mauthner, the distinguished Financial Times writer on European affairs who died last year.

The Robert Mauthner Fellowship will offer mid-career journalists from European Union member countries an opportunity to spend three months studying a subject of their choice at Oxford, as members of the Reuter Foundation Programme based at Green College.

The annual fellowship is open to journalists of all media, from any EU country, who distinguish themselves in reporting and interpreting economic, political or social developments in the European Union.

Successful candidates are likely to be aged between 28 and 45. Study projects will be agreed as part of the selection procedure. Fellowships will be for one term (approximately three months) starting in October, January or April.

Applications will close on June 30th 1995. Application forms and more information may be obtained from:

The Director The Reuter Foundation 85 Fleet Street, London EC4P 4AJ Tel: 0171 510 7015 Fax: 0171 510 8599

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FT Surveys

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son for feeling slightly queasy about US equiis the dividend vield: or rather. the lack of it. At around 2.5

per cent, the yield on the S&P Composite index is the lowest on record - lower even than in the summer of 1987, just before the crash.

What we have here is e two-way stretch. Not only are stock prices at record levels; companies are also paying out less of their earnings in divi-

Last year, US corporations reported a 40 per cent increase in earnings. Even allowing for one-off effects such as lay-offs and restructuring, the rise was around 15 per cent. Dividends, meanwhile, rose 5 per cent. In part, this is e function of

the economic cycle. Profits expected to keep the dividends As e necessary consequence.

the pey-out ratio fluctuates with the cycle as well. The effect has been particu-

larly marked in the latest The recession of the early 1990s caught corporations with

respondingly severe. Measured

unusually high borrowings, so the damage to profits was cor-

Global Investor / Tony Jackson

Two-way stretch for US equities

egainst reported earnings (including one-off charges), the pay-out ratio in 1992 rose to an almost unprecedented 80 per

Since then, companies have been rebuilding not only their dividend cover, but their bal-

ance sheets. Through a combination of profit and parsimony, their

pay-out ratio has halved. Of late, they have also been buying back their own stock in massive quantities. For bulls of Wall Street, this means the market is cheaper than it looks. The more a company spends this year on buying its stock, runs the argument, the less it can afford to raise its dividend. Next year comes the catch-up. All the company's free cash can go to the dividend payment, and it is divided among fewer shares. In the meantime as a smoothing

Tokyo's triple-digit p/e ratio was not what it seemed. One or exercise, the dividend yield two really heroic adjusters managed to get Tokyo's p/e should be adjusted upwards. There is room for scepticism below Wall Street's, Precious little good it did them when here. As Albert Edwards of the the Japanese bubble burst. London brokers Kleinwort A more interesting defence Benson remarks, adjusters always seem to be work of low yields comes from the

nowards, never downwards. Those with long memories may recall the efforts made in the late 1980s to argue that

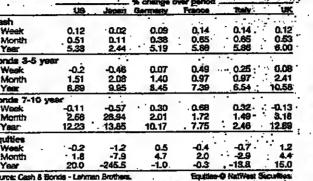
S&P Composite dividend

Wall Street firm Dean Witter. The baby boomer generation in America is close to its earnings peak. It is also exposed to joh insecurity, white collar shock and a growing awareness that pension promises might not be all that they seem.

The baby boomers are therefore saving for retirement. They are not interested in dividends today; they want capital growth in 30 years' time. Com-

Richard Mooney

Total return in local currency to 8/6/95



response is to re-invest more of their cash in the business. rather than giving it away.

In part, this is the kind of argument that makes you want to check your wallet. Whenever the market gets absurdly high on fundamentals, there are always people ready to explain why the fundamentals no longer apply.

Demographics could be part Nevertheless, there may be e

monetary poli-

capital moving

interdepen-

todav Europe? With

dent economies, an autono-

mous monetary policy is no longer a credible policy option. Member states will

only lose a prerogative which

in practice they cannot use.

EMU's monetary policy, the

participating central banks

will exercise . . . a shared hut

effective responsibility over

one of the strongest curren-

This argument appears in

the Commission's "green

paper" on the practical arrangements for the intro-

duction of the single currency. published at the end of last

month. It is one of a number sovereignty is a myth, while

European sovereignty is not.

In many cases - money being

one - these arguments are

doubly wrong: national sover-

eignty is no myth and, if it

were, so would European sov-

The proposition that mone-

tary autonomy is mythical has

almost become conventional

wisdom in Europe, but it is remarkably radical. The Euro-

cies in the world."

collectively managing

of the explanation. Another reason is equally basic. In the long run, the proportion of US stocks held by financial institutions rather than individuals In the UK, the reverse is

is steadily rising. The more stocks you hold in your portfolio, the less it matters if one of them goes bust. Little by little, the shift to institutional ownership means that stock-specific risk is being squeezed out of the market. It is logical to expect the required return on the market to fall accordingly.

This is not to say that US stocks are other than expensive. The question is rather how much more expensive they will get, and how sharp the eventual correction will be. On the one hand, while the dividend yield is clearly a warning sign, other measures such as price to book value or the yield T-bonds are less alarming.

Then again, as Mr Edwards of Kleinwort argues, the outlook for corporate earnings may be riskler than it looks. Despite being mean with their dividends, companies have been spending heavily on capi-

tal investment and stock buy. backs. As a resulf, corporate borrowing is rising sharply hard landing after all, the risks

Bnt as Mr. Edwards also points out, things could be worse Specifically, they could be more like the UK. US corporations are doing what the baby boomers want investing heavily, and holding back on

true. Companies are still reluc-tant to lower their hurdle rates of raturn for investment Rather than spending to expand, they are handing the cash back to shareholders: In the medium term, the results could prove perverse. By failing to invest, UK compa-

nies risk creating capacity bottlenecks and subsequent infla-tion. They could therefore contribute to a monetary environment in which higher dividend pay outs become necessary to match rising bond In the US, the circle could

prove correspondingly virtuous. To the extent that companies expand capacity, they con-tribute to holding down infletion and bond yields, and low dividend pay-onts thus become self-justifying Perhaps a 2 per cent yield on the S&P is achievable after all. One of these days, anyway.

COMMODITIES

Coffee estimate awaited

By tomorrow morning the coffee market should have a better idea whether last week's price setback is set to continue or to be recouped.

After tonight's close in New

York the US Department of Agriculture will release its latest supply/demand estimates for all world crops, which should include its latest assessment of the Brazilian coffee crop for 1995-96 in the aftermath of last year's frosts and

"While the USDA may not be the most accurate, it is the most neutral arbiter of crop size," a London trader told the Reuters news agency last Fri-

Brazilian trade house Esteve Irmaos could hardly claim to be equally neutral, which may be the reason its forecast last week that the biggest coffee producer'e harvest could be halved, produced little market impact. If the USDA came out with a similar projection investment funds would seem certain to take it as a signal to re-enter the market in force. Other significant data for the

coffee market due this week are today's release of the New York Cocoa, Sugar and Coffee exchange's certified stocks report and Friday's commit-

ment of traders report. Today could also see the start of disruption to Brazilian coffee shipments if the Santos port authority has failed to reach a pay deal with its workers overnight. An indefinite strike has been threatened. Yet another coffee event this

week is Wednesday's annual conference of the German Soluble Coffee Associa-

 In London tomorrow Inco. the Canadian mickel giant, is holding a presentation to mining analysts, at which company objectives and outlook will be discussed. There will be extra interest in this following last week's news that Inco had taken e 25 per cent stake in Diamond Fields Resources' massive nickel discovery at Voisey Bay, Labrador.

The International Primary Aluminium Institute's April stocks figures are dus out

Economic Eye / Martin Wolf How much autonomy do

nub of truth in it. One could

even push it further. Perhaps,

over the long run, dividend yields are heading downwards.

in the 1920s and 1930s, US

stocks yielded as much as 9 per

cent. In the 1950s - when

stocks first yielded less than

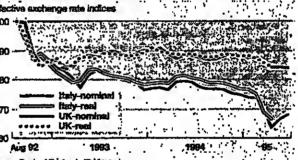
bonds - the figure dipped

below 3 per cent. Now, the

bulls might argue, it is pushing

On monetary sovereignty

is monetary autonomy really a myth?



anism in Septsmber 1992, de Silguy, that competitive fell to a maximum of almost 2½ percentage points below the German level. In May 1994, sterling short-term rates of interest went above the German level, where they have since remained. In the era of exchange-rate targeting, such a swing from negative to positive interest-rate differentials would have been impossible. That was no longer true

pean Union contains the world's third, fourth, fifth and sixth largest economies. If these have no monetary antonomy, then almost every country in the world - except the US and Japan - should close its currency down. For monetary sovereignty to be mythical a monetary authority either must be inca-

pable of altering policy or will have no impact on real eco-nomic variables, if it does. Each proposition is mistaken. Ask the Bundesbank whether it is incapable of changing monetary policy. Yet it is not alone. After sterling was brusquely expelled from the exchange rate mech-

with a floating exchange rate. Such changes can also have big and long-lasting real effects. The correlations between movements in the nominal and real effective exchange rates of sterling and the Italian lira, since their departure from the ERM, are almost perfect (see chart). This has already given the UK and Italy almost three years of substantial real effects. Mr Yves-Thibault de Silguy, the **EU's monetary commis** knows this perfectly well. It is why he said this week in Frankfurt that "If the [single currency] does not arrive, the

very existence of the singls

One can argue, as does Mr

market would be threatened."

single market. One can also argue that an autonomous monetary policy must be ineffective. But one can hardly argue both things at the same time. Companies could surely ignore transitory swings in competitiveness. It is because they are not transitory that currency movements create

such anxiety.

The fundamental issue is whet monetary autonomy means. To answer it, the confusion of sovereignty with absolute power must be eliminated. Fortunately, governments are always constrained by the reactions of those who hold their currency.

This is just es true in a closed economy as in an open one. The monetary authorities can always determine the rate of inflation. If people fear higher inflation, however, they will flee into real assets, thereby creating a rise in nominal long-term interest rates. Economists who believe prices and wages are flexible, even in the short run, would argue this is the end of the story. Others argue the

authorities can follow a counter-cyclical monetary policy. Some would also suggest that in the right circumstances, monetary policy can help change relative prices. Lord Keynes, for example, argued that it is less costly - and far swifter - to lower disequilibrium real wages by raising nominal prices than by lower-

ing nominal wages. Very little in this analysis changes in an open economy. Openness turbo-charges the effects of monetary policy, but does not change their nature. If people fear monetary policy is inflationary, they have the extra option of flight into for eign assets. The counter-cyclical effects of monetary policy are more powerful, sincs changes in real exchange rates affect a country's competitiveness in external markets. Finally, if higher prices are able to reduce real wages at all, a devaluation brings raising the prices of tradeable goods and services.

Monetary policy must have real effects in an open economy, if it has them in a closed one. Conversely, if monetary policy is ineffective in single member states, because prices and wages adjust instantaneously, the same must be true for the EU as a whole. Again, if people will flee from an inflationary monetary policy in single member states they will also flee from inflation in e single European currency (if they are allowed to).

As so often in debates about Europe's economic future, size is confused with effectiveness. National monetary autonomy is no myth. Its exercise can certainly bring long-lasting, though possibly not permanent, real effects. It is precisely because of this that peoindependence. The \$64,000 (sorry, Ecu or Euro-Franken) question is only whether the penefits of national monetary autonomy are outweighed by those of intra-European exchange rate rigidity. ...

This announcement appears as a matter of record only.

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June 1995

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REGIONAL MARKETS - Plaums in permithenes	US	%chg	Pound	UL YACI	NE 8 198		Local %	Gross	US	THURSD	AY JUNE	e 1995		DO	LLAR IN	
show number of lines of stock	Dota	since 30/12/94	Sterling	Yen	DM	Сипепсу	ong from	Div.	Dollar	Pound Starting	Yen	DM -	Local Currency	52 week	52 week	
4 SUCK	A ICHEX	30/12/94	Index	Index	Index	Index	30/12/94	Yleid	Index	Index	index	Index	Index	High	Low	(epp
Australia (83)		-4.5	151.97	87.29	116.07	151.39	2.9	4.15	165.93	154.89	89.19	122.48	152.48	180.82	157.0	5 17
Austria (26)	_195.96	7.2	181.70	104.36	142.35	142,16	-3.4	1.25	194.23		104.39	143.37	142.82		167.4	
Seligitum (35)		13.6	177.73	102.07	139.23	136.12	3.0	3.84	190.78	178.08	102.54	140.82		201.12	161:00	
razi (28)		-1B.7	123.02	70.86	96.38	222.85	-124	1.52	137.48		73.88	101.48	230.12		1000	
Zanoda (102)		8.7	130.44	74.82	102.20	140.30	6.8	2.52	141.68	132.26	76.16	104.59		141,69	120.54	4 12
Zenmark (33)		11.5	260.5 9	148,86	204.17	208.52	0.1	1.52	278.85		149.88	205.83		287.44	238.61	
inland (24)		17,3	202.22	116.15	158.43	196.09	6.0	1.58	216.15		116.16	159.55		218.09	133.88	• • ==
	182.83	11.6	169.53	97.37	132.82	140.85	2.8	3.15	184.43	172.15	98.13	136.13	144,14	191.17	157.76	
	157.96	10.2	146.48	84.12	114.75	114.75	-0.6	2.07	156.00		63.85	116,15	115.15	157.96	132,08	
	.382.55	11.2	336.16	193.08	263.38	359.99	11.7	3.79	363.20		195.21	258.09	360.63	416.42	277.40	
reland (16)		120	214.14	123.00	167.78	199,06	5.B	3.59	229,12		123.15	169.13	199.81	230.95	181.99	
	74.63	-0.6	89.20	39.74	54,22	90.90	-0.3	1.68	74.29	69.35	39.93	54.84	91.45	89.22	85.45	
apan (483)		-5.4	136.18	78.22	105.70	78.22	-21.0	0.98	148.05	138.18	79.57				136.95	-
Adaysia (97)	543.16	13.3	503.62	289.26	394.58	510.52	8.3	1.60	549.17	212.62	295.10	109.28	79.57	170.10	398.18	
	929.38	-34.4	861.73	494,95	675.14	6321.39	-17.1	2.12	945.7e		508.33	405,37	516.65	594.76	847.81	
letherland (18)		15,4	232,11	133.32	181,86	178.52	3.9	3.54	248.35	231.82	133.48	896.10			- 194,68	
lew Zealand (14)	80.40	1-1-1	74.55	42.82	58.41	64.03	9.6	4.67	82.04	76.58		183.32	179.88			
lorway (33)	223,44	4,8	207.17	11B.99	162.31	188.41	-3.7	2.24	221.20		44.10	60.56	64.99	84.31	54.00	
ingapore (44)	395,44	6.0	366.66	210.60	287.27	253.54	1.2	1.69	401.12		118.89	163.28	189.34		177.53	
outh Africa (61)	341.20	1.3	316.36	181.71	247.86	273.94	-8.7	2.54		374,42	215.80	296.09	257.22	414.26	319.94	•
pain (38)		12.2	137.34	78.88	107.60	135.97	3.3		344.08	321.18	184.93	253.97	276.88	363.22	261.48	
	268.60	15.3	247.19	141,98	193.67	283.94	11.6	4.10 2.10	147.10	137.31	79.07	108.58		151.78	124:10	
wrtzarland (46)	199.08	20.5	184.59	106.02	144.62	142.00	6.0	1.81	264.04	246.46	141,82	194.90		266.80	196.70	-
hodona (45)		8.2	158.60	\$1.10	124.26	163.61			196,16	183.11	105,44	144.60	142.45	199.48	155.05	, 10
Inited Kingdom (203)		11.1	200,69	115.27	157.24		6.2	2.67	173.09	161,57	93.03	127,76	165.83			
ISA (506)		14.9	200.08			200.69	8.7	4.17	217.62	203.13	116,97	190.64	203,13	218.27	:181.11	.18
_		14.3	200,08	114,91	156.74	215.77	14.9	2.67	217,59	209.10	118.95	160:61	217.59	219.15	180,55	
Mencas (554)	.197.88	13.5	183.29	105.27	143.60	166.85	13.7	2.65	199.40	100.40		_		2,0.10		
urope (739)		11.9	175.29	100.68	137.34	158.07	4.9	3.10		188.13	107.17	147.16		_		16
forefic (138)	255.82	14.0	237.20	136.24	185.84	225.63	7.2	1.93	188.68	176.12	101.41	139 <i>.2</i> 7	159.60	190.51	160.58	
	156.97	-4.5	145.54	83.59	114.03	89.50			253.47	236.59	136.23	187.09	225.85	255.82	197.70	
uro-Pacific (1561)		2.5	157.85	90.68	123.67		17,1	1.34	158.25	147.72	85.06	116.61	90.89	176.86	45.83	17
orth America (608)	211 12	14.7	195.75	112.43		114,96	-7.9	2.18	170.83	159.46	61,82	126.09	116:44	178.33	154.73	18
urope Ex. UK (536)		12.3			153.37	210,65	14.8	2.66	212.88	198.71	114.42	157.14	212.40	214.30	176.83	18
actific Ex. Japan (339)			157.67	90,56	123.53	134.18	2.9	2.59	169.00	157.76	90.83	124,74	135.27	. 171,29.	144.12	- 14
Varid Ex. US (1770)		6.4	235.10	135.03	184.16	222.87	6.9	3.19	255.86	238.83	137,52	188.67	224.51	273.13	211.19	24
		2.1	158.41	90.99	124.11	118.50	-7.8	2.18	171.52	180.11	92.16	128.61	120.02	178.73	155.42	
Vorte Ex. UK (2073)		6.1	168.12	96.56	131.72	141,52	-1.0	2.17	182.34	170.20	98.00				163.46	
Vorld Ex. Japon (1793)	.205.87	12.1	190.59	109.64	149.55	191.28	9.5	2.88	206.85	193.08		134.89	143.08	167.07	178.74	
he World Index (2276)	184.39	6.5	170.96	98.18	133.94	140 57					111.18	152.68	192.99	206.74		_
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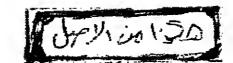
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EMERGING MARKETS: This Week

The Emerging Investor / Peter Wise

Developing a safe haven in Portugal

Two global equity offers in less than a month are awakening a wider interest in Portugal, one of Europe's peripheral emerg-ing markets that was previously an undiscovered area for many international investors.

Encouraged by the recent issue of Portugal Telecom - to be followed later this month by an offer of 40 per cent of Portucel-industrial, a pulp producer - a number of institutions are examining the country's potential for the first time.

They may be favourably surprised by what they find.
A tendency to bundle Portugal with Spain – 85 a relatively undisciplined economy stimulating growth hy successiva currency devaluations proves unjustified on closer

"Portugal has maintained an impressively firm exchangerate policy since the early 1990s," said Ms Sally Wilkinson, southern Europe economist with Union Bank of Swit-

"All the right policies are in place to huild a developed economy; it just takes time." Investment is forecast to take over from exports this year as the main drive behind Portugal's slow recovery from

UBS forecasts gross domestic product growth will rise to 3 per cent this year from 1 per cent in 1994, moving up to 3.9 per cent in 1996 - above the European Union average – and

to 4.1 per cent in 1997. Large EU transfers will fuel strong investment in infrastructure, a trend that is being additionally stimulated by the

CURRENCIES

approach of a general election on October 1

Recovery is occurring against a healthy backdrop of fiscal discipline, a stable exchange rate, and controlled inflation, which is forecast to remain stable at about 4.6 per cent this year and next.

In spite of the general election and a presidential election early in 1996, Portugal is relatively free from political risk. Both the ruling centre-right Social Democrats and the opposition Socialists, who are ah in the polls, are committed to meeting convergence targets

for European monetary union. Differences over economic policy are little more than a question of nuance. A minority government

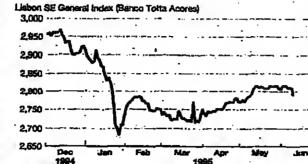
would, however, hamper Fund managers starting to look at the Lisbon stock mar-

ket will find that Portugal was the best performing European bourse in 1993 and the second best in 1994.

Growth has been flat this year. The National Continuous Index (BVL-INC) closed down 10 points on Friday at 1,300.41, a loss of 1.5 per cent since January. But the market has gained from a low of 1,254.86 in March.

"We expect the market to rise by 5 to 10 per cent by the end of the year," said Mr Pierre Boulle, director of research at Fincor, the Lishon brokers. "The increase in the year from the trough of last March is

likely to he more impressive. Portucel and Portugal Telecom, which accounts for 16 per cent of total market capitalisaPortugal



tion, will stroogly influence

overall growth. After a week of trading Portugal Telecom has gained only 2.1 per cent on the offer price Es2,800, considerably short of the 10 per cent rise targeted by the global co-ordinators. Dealers are confident of faster growth for Portucel. The

price range for the issue, to be encluded on June 27, has been set at Es920 to Es1,210. "There is more risk and more potential gain in Portucel," said a Lisbon trader. "If the entry price is low, investors will be looking for substantial gains before exiting as the pulp sector reaches the top of its cycle in two to three years."

As a relatively high-growth European economy that is also structurally sound, Portugal is becoming difficult to classify either as an emerging or a developed market.

The country no longer suffers from the volatility and risk that beset markets in

Europe, but oeither can it match their growth rates.

"Portugal is gradually losing Its status as an emerging market and is likely to earn recog-nition as a small, developed market in about two years, said Mr Mark Howard, a Madrid-based analyst with Singer & Friedlander.

The country is a safe haven where selective investors can be almost certain of a reasonable return.

Emerging market fund managers, eager for strong performance after the losses of 1994, are looking for stronger gains than Lisbon can offer this year. As a result, few give Portugal a weighting of more than 5 per cent. But they cootinue to drive the Lisbon market, which is forecast by Carnegie Portugal to show an average price/ earnings ratio of 12.4 this year.

Other institutions pick individual stocks rather than play the index. New investors drawn to Portugal by Portugal Telecom and Portucel are

likely to look for large, liquid companies. They will find that the biggest barrier to Portugal'a becoming a fully developed market is the scarcity of such stocks.

"Many institutions are deterred by markets where they cannot invest at the level they are used to," said Mr Paulo de Araujo, emerging markets director at Schroders.

"They often work in units of several million dollars and are not encouraged when thay find it can take up to week to build a position of that size in Portu-The Portugal Telecom and

Portucel issues will go some way to improving liquidity in a market where the free-float is estimated at about only 30 per cent. They are also a first step towards diversification into industrial stocks and utilities. A future and options market due to be launched in Oporto later this year will further enhance the liquidity of the market as a whole. Investors would like to see more issues of fixed-rate long-term govern ment paper to complete the

Morris-Grantham, an analyst with Carnegie Portugal, two of the few liquid stocks likely to attract new investors are Sonae Investimentos, with holdings in retail distribution and wood products, and the cement company Cimpor. which will be favoured by strong investment in infrastructure, Banks, which dominate the market, are not expec-

ted to make any significant

According to Mr Trevenen

■ Mexico

The Mexican equity market is poised to be one of the prime beneficiaries of a fall in US interest rates in the second half of the year, according to Ms Maryam Mansoury,

writes Philip Coggan.

Mexican companies are
around 70 per cent geared, according to Ms Mansoury, and a US interest rate cut would both help them and relieve the pressure on the Mexican banking system.

The stock market should also start looking forward to 1996 earnings, which should look good in comparison with 1995. After the recent bond market rally, Mexican shares look attractive in relation to Mansoury's measure, which compares the earnings yield with real bond yields.

Equity funds

market equity funds barely got off the ground during the first quarter, according to a survey. "With market performances now turning positive, it is very likely that the flight will be grounded before it becomes fully airborne," says Micropal in its latest emerging market fund monitor. Fund managers in the US, Europe and Asia were net sellers of less than \$300m, representing 1 per cent

An interesting feature was that managers of dedicated their counterparts managing

emerging markets strategist at Lehman Brothers in New York.

fixed interest securities on Ms

Capital flight from emerging of the \$26bn covered by the

regional funds sold more than

News round-up

globally diversified funds.

Olliff & Partners, the specialist broker dealing in closed end funds, has recommended buying Hungary and Pakistan and selling

Venezuela

The IFC is to make its first investment in an electronic securities exchange to be established in Caracas. The IFC is investing \$500,000 for a 9 per cent equity stake in Sistema Electrónico de Transacciones

The Bolsa Electrónica de Valores de Venezuela will be designed, said the IFC, "to offer a more efficient and cost effective alternative to the two securities exchanges currently operating".

Vietnam

Hanoi held its first auction of domestic treasury bills last week, selling bills worth 83.6bn dong (\$7.6m), which was 39 per ceot higher than had been anticipated. The state bank had aimed to sell 6 month bills worth 60bn dong. Thirty banks, including three joint ventures and four

foreign branches, submitted sealed bids for bills in denominations of 10m dong. 5m dong, 2m dong and 1m dong. The interest rate was set at 18 per cent a year. Auctions of T-bills will

replace existing six-month treasury bills which carried a fixed interest rate of 1.7 per

cent per month. The government is preparing for the country's first international treasury bond issue but has not disclosed when this will take place.

■ Ivory Coast

The Ivory Coast expects to privatise 15 more companies this year to raise some CFA FFr30bn, the government said last week. The prime minister, Mr Daniel Kablan Duncan, said in London that economic growth was oo target, forecast at 6.5 per cent in 1995, increasing to 10 per cent by 1998. However, such targets were dependent on agreement to reschedule the country's large foreign commercial debt, he said.

Edited by John Pitt. further coverage of emerging markets appears daily on the World Stock Markets page

		Week on week	k movement	Month on mont	h movement	Year to dat	е лючетелі
Index	9/6/95	Actual	Percent	Actual	Percent	Actual	Percent
World (352)	147.85	-1.83	-1.22	+0.10	+0.07	-10.18	-6,44
Latin America							
Argentina (23)	80.08	~4.05	-4.82	-1.34	-1.65	-6.03	-7.00
Brazil (23)	178.58	+0.54	+0.30	-6.13	-3.32	-30.79	-14.71
Chile (13)	232.90	+0.47	+0.20	+1.01	+0.44	+21.34	+10.09
Mexico (25)	65.88	-1.80	-2.85	-5.54	-7.75	-31.75	-32,52
Peru (16)	929.08	-16.38	-1.73	~4,54	-0.49	+80.41	+9.47
Latin America (100)117.54	-1.53	-1.29	-4,26	-3.50	-21.23	-15.30
Europe							
Greece (18)	104,32	+1.48	+1.44	-5.74	-5.22	+17.33	+19.92
Portugal (23)	124,47	+0.94	+0.78	-2,90	-2,28	+8.19	+7.05
Turkey (22)	141,80	+12.77	+9.89	+5.42	+3.98	+85.69	+86.30
South Africa	132,54	-2.22	-1.65	-5.44	-3.94	+4.59	+3.59
Europe (95)	115.07	-0.05	-0.04	-3,B9	-3.27	+17.37	+17.78
Asia							
ndonesia (28)	142.36	-1,58	-1.10	+19.99	+18,34	+8.67	+6,49
Korea (24)	136.85	-0.70	-0.51	-3.43	-2.45	-3.04	-2.17
Malaysia (22)	249,12	-6.63	-2.59	+24.57	+10.94	+38.26	+18,15
Pakistan (15)	85,11	+3.88	+4.49	+5.40	+6.77	-21.09	-19.68
Phillippines (12)	287.58	-5.66	-1.93	+23.82	+9.03	+5.45	+1.93
Thalland (25)	269,94	-2.07	-0.76	+8.61	+3,30	+18.30	+7.27
Taiwan (32)	147.27	-3.00	-1.99	-5,60	-3.67	-36,88	-20.03
Asia (157) :	219.02	-3.71	-1.67	+11.82	+5.70	+8.40	+3.99
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Busy week for currency traders

The combination of some key statistical releases in the US and the backdrop of important policy meetings makes for an important week on the foreign exchanges.

The key event is the G7 summit in Halifax, Nova Scotia. Traditionally these meetings produce little of substance to impact on currency markets. But there are various reasons for caution on this front,

First, the rally in the dollar

FT GUIDE TO WORLD CURRENCIES

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in early May came soon after the Washington meeting of G7 central bank governors and finance ministers in late April. Second, the recent, successful round of central bank support for the dollar had its roots in the communique issued at that

This has led some observers to wonder whether leading industrial nations are not preparing themselves for a

"reverse Plaza accord" (that is,

a concerted effort to reverse the fall in the dollar). At the very least, markets are likely to be cautious for fear of being caught offside by some policy initiative, even if

retreating from its view that

the economy was plunging into

The table below gives the latest available rates of exchange frounded against four key currencies on Friday, June 9, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are seed.

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it seems unlikely. Tomorrow also sees the release of key consumer inflation and retail sales data in the The market was last week

(Jouda Lampta (HK S

recession, and the retail sales figure will bave an important influence on this discussion. Currently, stronger economic data is likely to be seen as dol-

lar supportive. At least three other events have the potential to impact on the dollar: the meeting in Halifax between President Clinton and Mr Tomiichi Murayama, the Japanese prime minister; further developments in US-Japan anto talks, in the run up to

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the June 28 trade sanctions deadline; and the Bundeshank council meeting on Wednes-

The trade dispute remains a key issue for the dollar, with any signs of heightened disagreement hitting the US cur-

There is also widespread expectation of a further cut in German interest rates, if not this week, which would lend support to the dollar.

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Notice to the Holders of USD 102.920.000 41/2% Subordinated Convertible Bonds due 2008 **HOFI International Finance Limited**

(incorporated with limited liability in the Cayman Islands)

guaranteed oo a subordinated basis by, and convertible into Bearer Shares of,

"Holderbank" Financière Glaris Ltd. (incorporated with limited liability in Switzerland)

The Annual Geoeral Meeting of "Holderbank" Financière Glaris Ltd. held on Juoe 1, 1995, approved the creation of cooditional share eapital in the amount of maximum CHF 7,750,000. The Board of Directors of "Holderbank" Financière Glaris Ltd. decided to use a maximum of CHF 7,436,700 of the conditional share capital to secure warrant rights that were allocated to the shareholders as of June 7, 1995.

In accordance with the terms set forth in the Trust Deed the conversioo price is reduced with effect from June 12, 1995, from CHF 841 .to CHF 834.- per bearer share. Io case of future ecoversioos a cash adjustment of USD 78.30 (CHF 119.02 at the exchange rate of CHF 1.52 per USD) for each USD 5,000 principal amount of Boods will be made.

Glaris, June 12, 1995

Notice of Redemption

to the Holders of

MBE Finance N.V.

US \$30,000,000

Guaranteed Dual Basis

Bonds due 2001

Tranche B US \$10,000,000

Notice is hereby given that, in accordance with Clause 5(t) of the Terms and Conditions of the Notes, all of the Bonds of Tranche B US \$10,00,000 will be accorded to the state of the stat

redeem at the option of the Issuer at their principal amount on July 12, 1895.

interest on the Notes will cease

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"Holderbank" Financière Glaris Ltd.

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DOMUS MORTGAGE FINANCE NO 1 plc £100,000,000 **Mortgage Backed Floating Rate Notes** due 2014

In accordance with the conditions of the Notes, notice is hereby given, that for the three month period 8 June 1995 to 8 September 1996 the Notes will carry a rate of interest of 6.975 per cent per amount with a coupon amount of £1758.08.

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The Financial Times. One Southwark Bridge, London SE1 9HL Tel: +44 0171 873 3223 Fax: +44 0171 407 5758 **NEW YORK**

WORLD BOND MARKETS: This Week

The US Treasury market ended last week on a sour note as Benchmark yield curve (%)" hopes of a cut in interest rates 8/6/85 - Month Ago receded following comments from the chairman of the Federal Reserve. The yield on the 30-year bond rose from 6.5 per cent on Wednesday morning to more than 6.7 per cent on Friday evening. More evidence of the economy'a strength will be

offered this week in a heavy round of statistics. Tuesday brings retail sales and inflation numbers for May. MMS International says the median forecast for retail sales is for a rise of 0.6 per cent, or

0.4 per cent excluding motor vehicles. That would represent a rebound from the depressed level of April sales. The consumer prices index is predicted to show a 0.3 per cent

rise, which should not cause concern, especially after Friday's producer prices index showed inflation under control. Manufacturing industry statistics will be watched closely, On Wednesday, April

10 years 20

Maggie Urry

business inventories are expected to be up 0.7 per cent. On Thursday, industrial production for May is forecast to be down 0.3 per cent while capacity utilisation, one of the statistics the Fed focuses on most carefully, is expected at 83.6 per cent, down from 84.1

per cent in April. The market will also be looking for significance in any remarks made at the G7 meeting in Halifax, Nova Scotia, starting Thursday.

A plunge in gilts prices at the end of last week left participants in the UK government bond market wondering whether the recent

LONDON

rally is over. The September 10-year gilt future lost more than a point on Thursday and 21 points on Friday, with yields in the cash market rising above the 8 per cent barrier and the spread over German bunds widening from 147 to 157 basis points. Developments in the US

were seen as largely responsible by analysts, with mildly disappointing UK economic data leading to a further deterioration in Mr Nigel Richardson, head of

bond research at Yamaichi International (Europe), said comments on Wednesday by Mr Alan Greenspan, chairman of the US Federal Reserve, had an important impact, indicating that the US is not entering recession and that an imminent rate cut is unlikely. This week, a raft of UK

, rd, 17. % Benchmark yield curve (96)* - Month and -7.75 725 .8.25 years 20 25 ket convention niii Cynch

Richard Lapper

economic data will occupy the market's attention. Producer price figures are due on Monday, average earnings and unemployment statistics on Wednesday and consumer price and retail sales figures on Thursday. Disappointing figures are likely to lead to further underperformance.

Mr Richardson said the retail sales figures could be the most important. "If they bounce back, it could be a negative sign for gilts," he said.

FRANKFURT

The Bundesbank is not expected to do anything this week – although economists have mostly factored a further interest rate cut rate this year into their calculations - but it will have something to say. It will hold a press conference after its Magdeburg meeting, as it always does when meeting outside Frankfurt

The strength of the D-Mark has reinforced the battle against inflation, still at an annual rate of just above the central bank's 2 per cent target, but it has also cause economic growth forecasts to oe revised downwards. Bundesbank directors

commonly make equivocal statements about interest rate policy, but there was no mistaking the words of one of them last week.

Mr Johann Wilhelm Gaddum said inflationary dangers had not yet been warded off; consumer prices were moving favourably, but there was still pressure in the pipeline from producer prices.

Benchmark yield curvs (%)* '9/8/95 - Month ago = 7.75 ~ 5.75 4.75 1. 10 years 20 . ce: Mentil Lynch

Andrew Fisher

Thus the Bundesbank should not react too quickly, so its policy became easy to read, he added

There has been speculation that a cut in rates could be made to help the dollar. especially with the G7 summit about to start in Canada, but any relief would be short-lived and the Bundesbank dislikes acting for exchange rate reasons. A weakening economy and softer inflation could prompt a move later, though.

Financial markets were unconvinced by last week's quarterly survey of business

TOKYO

sentiment, which suggested that a mild economic recovery is still in place. Shares continued their descent while honds saw dealer buying. "Given the appreciation of the yen and a slew of articles on manufacturers moving

production overseas, it is difficult to believe that business conditions really improved over the last three months or that companies have actually revised up their domestic capital expenditure plans," says Mr Brian Rose at S.G. Warburg Securities.

The weakness in equities, which were also hit by the lack of new measures in the government's bad loan clean-up package announced last week, is expected to support bonds. The banking package left investors feeling that the disposal of the banks' bad loans would take longer than expected, raising fears over the economy.

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Both long and short-term yields are likely to decline amid such pessimism. The yield on the 10-year benchmark could test the 2.685 per cent . level seen on May 31, while the Bank of Japan may lead the overnight call rate down to 1 per cent if the Nikkei falls

below 15,000. Tuesday's monthly economic report by the Economic Planning Agency will provide the government's view of current economic conditions.

Syndicated loans

Borrowers benefit from stiff competition

The round of refinancing continues in the syndicated loans market as borrowers seek to make the most of the stiff competition among banks to cut borrowing costs and relax covenants. The Bank of England has recently warned banks about the risks associated with this trend.

Some bankers say borrowers are in danger of going too far and may put long-term relationships at risk. For example, a £275m four-year refinancing for MEPC, the UK property company, bas met bostility from some banks because its structure gives the borrower excessive power.

This market has given a lot to borrowers but this structure is allowing them to take out the last cent." said one banker.

Rotbschild, which has invited 14 banks into the deal, is confident of a good turnout, however, and is also talking to other companies about the structure. The so-called "flexi-ble participation facility" structure, first used last year by John Lewis, the UK retailer, enables borrowers to reset pricing during the life of the loan.

The margin on £75m of the total amount of MEPC's loan is fixed at 47% basis points until February 1997 and then rises to 50 basis points until May 1999, when the loan matures.

However, the margin on the remaining £200m is variable and banks will be asked to make bids on their commitments at the start of the loan and again in February 1998.

Among other companies seeking to refinance, BET plc has asked Chemical, the arranger of its current facility, to set up a new £200m five-year facility.

Barclays and Société Générale are arranging a £100m fiveyear facility for Saab Finance. the UK arm of the Swedish car company. This deal partly refinances a £57.5m facility signed in December 1993, Saab is believed to have made a significant saving.

INI, the Spanish state industrial holding company, is looking for a \$750m seven-year facility with a margin of about over Libor, BBV, Citibank, J.P. Morgan and UBS are believed to be in the running. Chemical and Sumitomo are

syndicating a debut facility for Stockholm Energy, which is owned by the City of Stockholm. The margin on the \$300m seven-year deal for the first five years is 171/2 basis points over Libor, rising to 20 points in the last two years. The commitment fee is 8%

points, rising to 10 points. Elsewhere, the size and pricing on a syndicated loan for Transnet, the South African state-owned transport group, has highlighted the eagerness among banks to establish relationships with the country since the end of apartheid.

Eight to 10 banks have been invited to underwrite the \$200m loan, which will have a term of three years, the current limit for South African borrowers. The underwriting commitment is helieved to have been set at \$25m.

Some bankers noted that the arranging group is rather large considering the size of the loan. There was also some discussion about whether there would be sufficient appetite in general syndication to allow arrangers to scale back their

Sumitomo is to co-ordinate the group and Fuil, Hill Samuel, Royal Bank of Scotland and NatWest are believed to be among the banks invited. A group should be in place by the end of the week.

As well as size, Transnet has obtained what bankers say is an aggressive margin of 60 basis points over the London interbank offered rate (Libor). This compares with the 75 points over Libor which South Africa's state-owned Industrial Development Corporation (IDC) obtained on a three-year \$50m facility in April. Transnet will pay underwriting fees of 15 hasis points and up-front

fees of 20 points. Some bankers say concerns about Transnet's loan are unfounded because so many banks want to strengthen their ties with South Africa, However, they say the success of the deal depends on a strong arranging group which has a clear syndication strategy.

The healthy response to IDC's loan when it entered general syndication should also hode well for Transnet, although its loan is much

smaller. IDC'a loan is now at the documentation stage and should be signed hefore the end of the month.

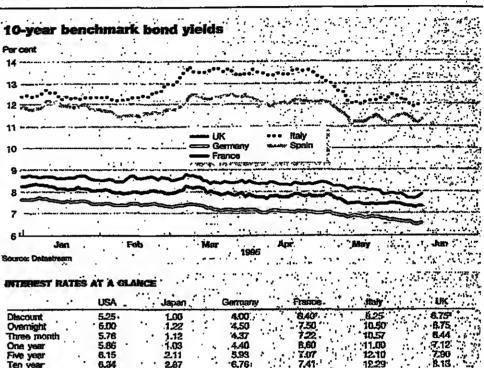
Fuji, which arranged the deal with Henry Ansbacher, declined to disclose the final commitments but said the response meant IDC could increase the loan to between \$60m and \$100m without taking up the total commitments.

The trend among banks to look down the credit spectrum is also working in favour of Turkey, which only one year ago experienced a severe financial and economic crisis and lost its investment-grade rating. Margins on deals for Turkish banks have come in by about 30 basis points in a matter of months, though there is little evidence that banks are willing to lend money for more than one year.

Margins for Turkish credits are now close to levels last seen in 1993. This raises the question of whether pricing is coming down too quickly considering Turkey is still in a

Antonia Sharpe

Russian debt



US TREASURY BOND FUTURES (CRT) \$100,000 32nds of 100%

T-bills set to test strength of demand

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Cs holding CREDIT SUISSE SWISS VOLKSBANK CS FIRST BOSTON THE PRIVATE BANK GROUP FIDES INFORMATIK CS LIFE ELECTROWATT LTD

NOTICE TO THE HOLDERS OF

US\$ 500,000,000

CS HOLDING FINANCE (GUERNSEY) LTD.

4%% Subordinated Convertible Bonds Due 2002 Guaranteed on a Subordinated Basis by,

and Convertible into Bearer Shares of CS Holding, Zurich rporated with limited liability in Switzerland.

The Annual General Meeting of CS Holding held on 29 May 1995 resolved, inter alia, to split CS Holding's bearer shares in the ratio 1:5 and to exchange such shares for registered shares with effect from 19 June 1995, i.e.

Each CS Holding bearer share with a par value of Sfr 100, security no. 146 249, will be exchanged for five CS Holding registered shares with a par value of Sfr 20 each, security no. 146 248.

Therefore, with effect from 19 June 1995, the conversion terms of the above captioned Bonds will be amended as follows:

Each US\$ 5,000 principal amount of Bonds may now be converted into 75 CS Holding registered shares, with a par value of Sfr 20 (ISIN CH0001462487), and a Cash Adjustment of US\$ 242.29 (corresponding to Sfr 330 at an exchange rate of Sfr 1.362 per US\$ 1 = US\$ 242.29).

In accordance with clause 9. (D) (2) of the Terms and Conditions of the Bonds, the conversion price per share will be Sir 86.40 with effect from 19 June 1995.

Zurich, 12 June 1995

For CS Holding: **CREDIT SUISSE**

45% CS Holding Finence (Guernsey) Ltd. Subordinated Convertible US\$ bends 1992-2002

ISIN

536 802 XS004046196-3 nitely in the second tier. It is

Mr Andrei Kozlov, a deputy chairman of Russia's central bank, has little doubt about the importance of the two-yearold government debt market. "This is the most successful project in the history of Russian economic reform." he

Although Mr Kozlov may be stretching the point, there is no doubt that the creation of Russia's Treasury bill market has been a powerful weapon in the government's struggle to introduce sound public finances and combat inflation.

In 1993, the government was able to raise Rbs105.5bn of noninflationary finance by selling Treasury bills. That jumped to Rbs5,700bn last year but the government now intends to test the market to the full: it is accelerating its programme to cover the bulk of this year's Rbs32,000bn financing needs.

"The Russian government is moving from monetising the government deficit to capital markets financing within two years. That is pretty impressive," says Mr Dirk Damrau, director of emerging markets research at Salomon Brothers in London. In contrast to Russia's infa-

mously ramshackle equity market, the market for government bonds (GKOs) has won acclaim for its sound trading and settlement arrangements. "It is not the most sophisticated infrastructure of any emerging market but it is defifar from being a rinky-dink operation," says one trader.

The GKO market has been through some testing times, with yields rising above 300 per cent earlier this year as the monthly inflation rate peaked at almost 18 per cent and traders feared the financial consequences of the Chechen war. Some observers suggested the market was comparable with Russia's notorious pyramid selling schemes, where new

money was being raised simply to pay off earlier obligations. But the government's fierce monetary squeeze has helped cut inflation to below 8 per cent in May and it is likely to fall further. The bond market haa responded impressively, with yields on government debt tumbling to 70 per cent – perhaps giving the government a chance of attaining its financing targets this year.

The central bank is now try-ing to take advantage of the benign market by offering longer-term securities to a broader range of investors.

Last month, Mrs Bella Zlatkis, head of the securities department at the Ministry of Finance, detailed plans to launch several new securities, including two-year notes with a floating coupon rate pegged to the current yield in the T-bill market; three-year goldbacked bonds, secured on Rbs2,000bn of gold deposits; and three-year floating-rate notes which may be denominated in US dollars to help soak up almost \$20bn of domestic savings.

This week also sees the introduction of OFZ bonds with a redemption period of more than one year. The maturities will extend

as people have more confidence in the longer-term inflation outlook. You simply cannot run the country on three to six-month money when it takes two years just to build a hotel," says Mr Peter Derby, chairman of Dialog Bank, which helped create the GKO market.

The central bank is also helping to improve liquidity by extending trading heyond Moscow, with five other regional centres in St Petersburg, Novosibirsk, Vladivostok, Rostov-on-Don, and Yekaterinburg establishing trading floors.

Merrill Lynch, the US investment bank, is also advising the Russian government on how to coax more foreign investors into Russia and how to tap the international capital markets. But although economists applaud the GKO market's development and praise the government's strict adherence

to its stabilisation programme backed by a \$6.8bn International Monetary Fund stand-by fund - some say the picture is now being clouded by Russia's exchange rate policy. Incredible though it would

have sounded a few months ago, currency traders fear the rouble is appreciating too fast.

"It was worrying when the rouble was at Rbs4.950 against the dollar. But at Rbs4,881 it is scary. Unless inflation falls very quickly, this exchange rate is unsustainable and something has to give," says Mr Thomas Reed of AIOC Capital. a Moscow-based securities

Mr Sergei Glazyev, a former government minister and pariamentary leader, said it was "an economic absurdity" for the rouble to strengthen while inflation was atill high and industrial output continued to

He described the current economic situation as "a bluff for the sake of short-term political dividends" and forecast a repeat of last October's "Black Tuesday", when the rouble lost more than one-fifth of its value

in one day. But, on Friday, Mr Anatoly Chubais, the first deputy prime minister in charge of economic policy, chided his critics for being too pessimistic and pointed to signs that industrial production was recovering to justify the stronger rouble. With between \$9bn and \$10bn of hard currency reserves, the central bank has a lot of ammunition to defend its line.

Whichever view prevails, the next few weeks will be important for the country's fledgling government debt market and critical for the course of Russian economic reform.

John Thornhill

U.S. \$500,000,000

Formosa Plastics Corporation, U.S.A.

Floating Rate Notes due 2001

In accordance with the provisions of the Notes, notice is hereby given that for the six month interest Period from June 12, 1995 to December 11, 1995 the Notes will carry an interest Pate of 7.46875% per annum. The interest payable on the relevant interest payment date, December 11, 1995 will be U.S. \$18,879.34 per U.S. \$500,000 principal amount.

By: The Chase Manhattan Bank, N.A.

June 12, 1995

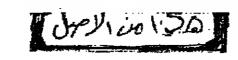


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FT-SE-A All-Share index

1.650 -

1,845 ..

1,640

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Source: FT Graphite

early March.

June 1995

which, by last Thursday, had lifted the

Even last week's bid activity - ectual,

in the case of GEC's offer for submarine

maker VSEL and rumoured, in the case

The yield on the 10-year gilt climbed

Hong Kong was the best

to rankings compiled by

Last week saw e wave of

selling by overseas investors

Jepanese shares this year,

Traders expect further

growth-related stocks which

institutions have also been on

the sell side, and results for the

Life insurers already suffer

investments, and latent profits

on stock holdings are expected

to have declined as they have

been realising gains to cover

"There is little appetite

among domestic investors for

any sort of risk," says Mr Tom

Hill, strategist at S.G. Warburg

Securities. This includes the

for the negative yields.

overseas investors bought

Meanwhile, domestic

country's life assurers this

negative returns on their

week will outline their

writes Emiko Terazono.

selling of the earnings

earlier in the year.

the only prominent buyers of

TOKYO

performing developed stock

market last month, according

Morgan Stanley, rising 12.8 per

of the sharp rise in the share price of

Zeneca - did little for the overall

FT-SE 100 index by 400 points since

EQUITY MARKETS: This Week

Retail sales to give further clue on rates

NEW YORK

ONDAY IUNE 12 19/5

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The Row Sall Supplied to Manual

Lest week the stock market swung up and down on speculation and rumour. This week it may swing again as investors reassess their views of the economy, but at least they will have some economic statistics on which to

One of the most important pieces of data to be released this week will be the figures on retail sales due tomorrow. Economic data released so far this month - including the employment report that showed a 101,000 decrease in jobs for May - have indicated that the economy is slowing quickly and have led to speculation that the Federal Reserve will lower interest rates as early as July.

Many economists, however, believe that rising consumer spending might revive the economy without a rate cut. The median forecast among analysts is that retail sales will have risen by 0.6

Dow Jones Industrial Average 4490 4470 June 1995 Source: FT Graphite

Lisa Bransten

per cent to reverse April's 0.4 per cent fall. If the figure is substantially lower, it could lead to renewed talk of an early

Also due to be released tomorrow is the Consumer Price Index for May. investors will look carefully et the figure because it is the primary measure of inflation, but it will not necessarily move the market because it does not provide much information about the future direction of the economy. Economists expect CPI growth to have slowed to about 0.3 per cent from 0.4 per cent in April.

Looking for confirmation

LONDON

The London equity market starts the week in need of a pick-me-up after a sharp fall on Friday, in the wake of weak bond markets and Wall Street.

of slowdown

The US markets will continue to be a substantial influence but this week. traders will have some important UK economic data to get their teeth intonotably retail prices, producer prices, everage earnings and retail sales.
Since Mr Kenneth Clarke, the chancellor of the exchequer, and Mr

Eddie George, the governor of the Bank of England, met in May, economic data have supported the chancellor's view that the UK economy is slowing. Any sign in this week's statistics of robust activity or price pressures will put a dent in that theory and revive fears of rise in interest rates.

A change in interest rate sentiment would add to the factors encouraging a correction to London's recent rally

Philip Coggan International offerings

Competition hots up for mouth-watering mandates

Equity syndicate managers' travel budgets will have to be generous this summer to cover all the shuttling around Europe in the hunt for lucrative mandates.

Those who emerge from these "beauty contests" as the global co-ordinatore of the tumbo deals waiting in the wings will be more than amply compensated for the frustrations of hanging around airport waiting lounges, holding client presentations in foreign languages and working around the clock to perfect their pitch.

"All those big European privatisation deals have a lot of back above 8 per cent on Friday and with equity yields still below 4 per cent (on the All-Share), shares may have people frothing at the mouth," said one banker. "Everyone's throwing people and money at difficulty making progress in the short them like there's no tomor-

> In many cases, preparing presentations to the issuer can keep large teams of syndicate officials, analysts, corporate financiers and other assorted number-crunchers tied up for

> "On e recent pitch we had to get in people from all over the organisation and practically lived in the office, surrounded by empty pizza boxes and hamburger wrappers, just to get the document out," says one

hanker. The cost of these self-promotion campaigns can run into thousands of dollars a day. especially when investment banks' top-level executives are

flown in to support the effort.
"On e big deal, a pitch can easily be worth more than \$100,000," says one banker. Some large banks with higher overheads often don't even compete for the smaller issues because they are unlikely to cover their costs.

For the winner, the effort

and cost are well-spent. With total fees - including selling, management and underwriting commissions - on most European privatisation offerings averaging about 3 to 3½ per cent of the issue size, those heading the deal stand to make a tidy sum. Up to 85 per cent of the fees can go to the global co-ordinator, with the balance divided among the 10 to 15

other banks involved at co-lead

and co-management level.

"The economics are very much ekewed towards the global co-ordinator - it's the winner-takes-all principle," says a dealer.

But in fact, the runners-op can also do well. "The good thing about equity deals is that you can always win e second prize," unlike in the mergers and acquisitions business, where banks either get the deal or walk awey empty-handed, says a banker. On a large deal, the "consola

tion prize" for a co-lead man-ager can more than cover its costs. So even when they know they are unlikely to get the top job, many banks compete for the job of global co-ordinator in the bope of being eppointed as high up in the syndicete structure as possible.

Moreover, "there's alweys the incentive of the next deal if we do a good job as co-lead, we could be considered for global co-ordinator for a follow-on tranche", says another. But while mouth-watering

mandates ebound, the number of investment banks deemed able to handle such large share offerings is limited. This has raised the spectre of e conflict of interest for banks pitching for mandates while they already hold mandates for other sales which could be in the same industrial sector or be issued at the same time.

This conflict is at its strongest in the telecoms eector, which is facing a flood of privetisation offerings worth some \$30bn in the next 12 months.

"Some issners feel that if they award a mandate to a bank, they want the full atten-tion of the firm that gets it," says one dealer. Issuers' fears are sometimes exacerbated by beauty contestants warning issuers not to appoint banks that already hold mandates for other large deals.

"It's a case of reverse marketing, where not having a mandate becomes a selling point for some houses!" says one banker. The opposite can also be true, however. "Sometimes issuers will appoint people because of their industry experience and because they have been awarded a mandat for a similar deal by a similar company," says a dealer. "It cuts both ways."

As the market continues to mature, bowever, issuers may find that bankers, especially e the big houses, can juggle more than one deal at a time.

"We are very used to working on several transactions et any one time, but there are some people who feel that if you have one telecom mandate you can't work on anything else," says a US banker.

That line of thinking often rules out the strongest candidates, who already have large mandates, and means picking second-tier houses with possibly weaker placement power, he says. "Issuers should recognise that the top-tier houses can deal with this situation and bave the resources to

evoid a conflict of interest." In this light, bankers are keenly watching the appoint ments of the global co-ordina tors for the forthcoming privatisation sales of Italy's oil and gas group Eni (estimated et \$3bn-\$4bn), its telecoms giant Stet (\$6bn-\$8bn), Spain's Telefonica (\$1bn) and KPN, the Dutch telecoms operator (\$4bn) all expected by the year-end.

The appointment of global co-ordinator for the Stet sale highlights the difficulty of picking e strong bank that is not already involved in another closely-timed deal.

Stet has not short-listed Goldman Sachs as global co-ordinator for its offering, Goldman already has a full plate with Deutsche Telekom's 1996 deal, seen totalling \$10bn, Indonesia's PT Telkom, estimated et \$2bn, later this year and the advisory role in KPN.

Merrill Lynch may be "conflicted" by its mandate to leadmanage the sale for Italy's electricity utility Enel, dealers say, and Morgan Stanley, while expected to obtain a senior position in the Stet syndicate, is unlikely to be global co-ordinator as it is advising the

company on the sale. This leaves a group includ-ing BZW, J.P. Morgan, Lehman Brothers, Paribas, Salomon, S.G. Warburg and UBS competing for the mandate.

Conner Middelmann

base their judgments.

OTHER MARKETS

FRANKFURT Last week's interest rate reductions by the Dutch and Belgian central banks have spurred expectations of a cut by the Bundesbank in coming

UBS notes that recent speeches by Mr Hans Tietmeyer, president of the Bundesbank, and other council members have suggested that there might be another easing in official rates if M3 growth remains subdued and inflation continues to behave well.

However, the bank feels that this Wednesday's Bundesbank council meeting is too early for such e move and that the Buba might wait until after the James Capel notes that Mr

squarely on money supply, wbether there are inflationary pressures and the international citration. Consequently, in Capel's view, there is little case for a further cut, although it would

be foolish to rule out such a

interest rate decisions will rest

Tietmever has said that

move in the near term. In a week largely bereft of corporate news, Karstadt, Germany's largest retailer holds its balance sheet press conference today.

AMSTERDAM

Ahold's first-quarter figures are due out on Friday and in common with many other Dutch companies exposed to the US dollar, it will be expected to reveal a weakness due to volatility in the currency markets, writes John

The food retailing group derives some 50 per cent of its sales and 80 per cent of its net profit from the US and estimates James Capel, a 15 per cent fall in the dollar translates into a 4.5 per cent decline in Ahold's net profit in guilders. Paribas expects management to improve operating margins in Holland, restructure the US divisions and rationalise peripheral activities to lift earnings by 15 per cent per annum over the next three years.

ZURICH

The moment of truth for the two-track spin-off plan for the industrial chemicals division of Sandoz has arrived, writes Ion Rodger.

Top executives of the division, to be called Clariant if it becomes independent, have sounded out the world's biggest investment institutions on what they might pay for

shares in the new company On Thursday, together with Sandoz executives, they are to fix a narrow price range for

book-building - unless, that is, Sandoz bosses have already convinced another big chemicals group to buy the division outright et e more ettractive price.

HELSINKI

Results for the first four months come on Friday from Nokia, the telecommunications group whose shares have rocketed by 770 per cent since the start of 1993. Analysts who are forecasting

pre-tax profits of FM1.4bn to FM1.6bn for the period, after FM969m last year, will be watching for evidence of a continued turnround of the consumer electronics business. the rate of growth for cellular communications and the size of the order book. Four-month figures also

come today from Metra, the industrial group, and tomorrow from Kemira, the chemicals group. Rautaruukki, which has announced that it is to invest FM1.75bn to increase its steel capacity by half a million tonnes, reports on Wednesday and Metsä-Seria details its four-month figures on Thursday.

Share prices are expected to week, in spite of last Friday's agreement on the setting up of the Court of Final Appeal, writes Louise Lucas.

HONG KONG

Although agreement on the court, which replaces Britain's Privy Council upon Hong Kong's return to Chinese sovereignity in July 1997, is good news for business confidence, dealers said the outcome had already been anticipated by the market. Instead, investors are likely to focus on the take-up of

flats at Kingswood Villas, which are priced at the low end of market expectations and carry attractive repayment Some 200 flats are on offer, although more may be released depending on the level of subscription. This will provide

Cheung Kong's latest release of

a pointer for the health of the property sector. Investors will also continue to monitor US economic data to assess the likelihood of an interest rate cut, which would filter through to Hong Kong via the US\$ currency peg. However, profit-taking is expected to keep prices in check as investors cash in on

what has been a good run -

equities and foreign currency-denominated assets

Compiled by Michael Morgan

K mart (Australia) Finance Limited

U.S. \$28,091,000

12.031% Extended Term Debentures

NOTICE OF OFFER

Notice is hereby given of the intention of Coles Myer Ltd. (the "Purchaser") to make an offer (the "Offer") to purchase for cash the entire principal amount outstanding (amounting to U.S. \$27,851,000, which excludes the Coles Myer Holding (as defined below)) of the U.S. \$28,091,000 12,031% Extended Term Debentures Issued by K mart (Australia) Finance Limited (the "Debentures") and, for this purpose, it has appointed Goldman Sechs International ("GSI") as its exclusive

The Offer will be open for a period from and including 12 June 1995 until no later than 12 noon (London time) on the fourth business day following the Certification Date (as defined below) or for such other period as may be notified (the "Offer Period"); however the Offer can only be accepted after the Certification Date (as defined below). The price at which the Purchaser will purchase Debentures tendered pursuant to the Offer will be 198.5 per cent. of their principal amount (the Purchase Price") plus interest at a daily rate of 12.031 per cent. per annum on the principal amount of the Debentures accrued from and including 1 July 1995 to but excluding the Settlement Date (as defined below).

The Offer is subject to two conditions (together, the "Conditions") as follows: the holders (the "Debentureholders") of not less than 50 per cent. of the aggregate principal amount outstanding of the Debentureholders") of not less than 50 per cent. of the aggregate principal amount outstanding of the Debentures having elected in accordance with the instructions printed on the interest coupon due on 1 July 1995 to redeem the Debentures in full on 1 July 1996 (the "Redemption Condition"); and the receipt by GSI of a certificate (the "Certificate") from Shawmut Bank Connecticut (the "Indenture Trustee") stating that the Redemption Condition has been satisfied and confirming that, as at that date, the Debentures have not become redeemable (in whole or in part) pursuant to the terms and conditions of the Debentures for any

Upon receipt of the Certificate by GSI (the date of receipt being the "Certification Date") the Offer will become

The indenture Trustee has indicated that it will provide the Certificate on the day on which the Redemption Condition has been salisfied notwithstanding that the voting period extends to 1 August 1995. Consequently, the Certification Date may be

As at the date of this Notice, GSI is the holder of U.S. \$12,222,000 in principal amount of Debentures and currently intends to vote its Debentures in favour of redemption and, if the Offer becomes unconditional, to accept such Offer with respect to all its Debentures, However, there can be no certainty that GSI will as vote; GSI is under no obligation to so vote and Debentureholders should not rely on GSI to so vote. In view of the Redemption Condition, Debentureholders who wish to have their Debentures purchased pursuant to the Offer should consider voting in favour of redemption.

Details of the voting procedure and certain other information deemed by Coutts 8 Co (Cayman) Limited (the "Stock Trustee") to be relevant to the redemption decision are contained in the information statement distributed to Debertureholders by the Stock Trustee (the "information Statement") and, in the case of Debertureholders holding Debertures through Morgan Guaranty Trust Company of New York, Brussels office as operator of the Euroclear System ("Euroclear") or Cedel Bank, société anonyme ("Cedel"), in the notices distributed by Euroclear or Cedel (as appropriate). Further copies of the Information Statement may be obtained from the Stock Trustee.

In the event that one or both of the Conditions is not satisfied, the Offer will lapse and the Purchaser shall be under no

In the event that one or both of the Conditions is not satisfied, the Offer will tapes and the Purchaser shall be under no obligation to purchase any Debentures from any Debentureholder whether pursuant to the Offer or otherwise.

Debentureholders may indicate their interest in the Offer by telephone on any business day between 9.00 am and 5.00 pm (London time) during the Offer Period but may not accept the Offer prior to the Certification Date. On or after the Certification Date, GSI will notify each Debentureholder who has indicated its interest in the Offer that the Offer has become unconditional and ask such Debentureholder if it wishes to accept the Offer. No Debentureholder is obliged to accept the Offer. GSI will send all behantureholders who accept the Offer e confirmation of such acceptance.

Settlement in respect of Debentures purchased pursuant to the Offer is expected to take place on the 7th business day after the Certification Date (the "Settlement Date"). Debentures purchased pursuant to the Offer may only be delivered and paid for through Euroclear or Cedel. To participate

in the Offer, Debentureholders who do not have an account at Euroclear or Cedel may deliver their Debentures through a bank, custodian or other financial institution which maintains an account with Euroclear or Cedel. Each Debenture must have all unmatured coupons appartaining thereto attached or delivered therewith.

No obligations in relation to the Offer or the Debentures shall be created between the Purchaser and any Debentureholder unless such Debentureholder accepts the Offer on or effer the Certification Date in the manner set out above, in which case such Debentureholder shall be obliged to self and the Purchaser shall be obliged to

The Offer is governed by and shall be construed in accordance with English law.

GSI is not acting for recipients of this Notice and it will not be responsible to recipients for providing customer protections and it is not advising recipients as to the arrangements described above. Debentureholders who are in any doubt as to their position should consult their stockbroker, solicitor, accountant or other professional adviser. GSI shall receive a customary fee in respect of acting as Dealer Manager for the Purchaser in connection with the Offer, Coles Myer Entitlements

The Purchaser holds U.S. \$240,000 aggregate principal amount of the Debentures (the "Coles Myer Holding"). Debentures held by the Purchaser or any of its atfiliates are not considered outstanding for the purposes of determining whether the holders of at least 50% of the aggregate principal amount of the Debentures have elected to redeem such Debentures on 1 July 1996 and accordingly will be excluded from the vote in July 1995.

In the event that (i) the Conditions are estisfied and (ii) a Debentureholder does not accept the Otler, such Debentureholder will be entitled to receive on 1 July 1996 its pro rate share of the proceeds of the public auction of the Properties calculated in accordance with the larms and conditions of the Debentures. Information on the Properties is contained in the information St.

Any questions with regard to this Notice and initial indications of interest in the Otter should be directed to the following Flora Stenhouse

Angela Yoreth Tel: (44 171) 774 23 26 Fac: (44 171) 774 57 11

Tel: (44 171) 774 23 25 Fax: (44 171) 774 57 11

Goldman Sachs International Peterborough Court, 133 Fleet Street, London EC4A 2BB

SGA SOCIETE GENERALE ACCEPTANCE N.V. DUE JUNE 15, 2000 ISIN CODE : XS0037973418

Notice is hereby givan to the Bondholders that, pursuant to the Terms and Conditions of the Bonds Condition 4. "Interest", that rate of Interest epplicable to the period from June 15, 1994 to June 15, 1995 is 7.875 %. This rate of interest has been determineted according to the Condition 4. (ii), i.e. "The Bonds bear Interest at a rate which is the higher of Annual Average of TME - 0.10% or 7.50% per ennum", (Annual Average of TME for the above mentioned period being 7.975 %). Therefore, the interest payeble against surrender of coupon nr 3 will be: FRF 787.50 per Bond in the denomination of FRF 10,000

THE PRINCIPAL PAYING AGENT SOGENAL SOCIETE GENERALE GROUP 15, Avenue Emile Reuter LUXEMBOURG

CONTRACTS & TENDERS

REPUBLIC OF TUNISIA CONSTRUCTION AND HOUSING MINISTRY

IMPLEMENTATION OF THE OLYMPIC CITY "NOVEMBER 7TH, 1987" IN RADES

Tunisia has decided to construct an Olympic Sports Complex that will be used for the 14th Mediterranean Games in 2001. The project will start in

The Complex includes:

- An 80,000 seat footbell stadium and 3 practice playing fields. A 5,000 seat athletics stadium.
- A 10,000 seat indoor multi-purpose arena A 2,500 seat individual sports arena.
- Two swimming pools, one covered and one open-air, with 3,000 seats. A 5,000 seat center court teams with 7 training courts
 A track of feature for a pre-A track of "sports for all".
- An administration center, a press center, a sports museum and an entertainment park for the child and the family. This Complex will be constructed 15 kilometers south of the capital Tunis, in the "Rades forest area" on a site of about 130 ba.

Access to the site is from the Tonis-Source Highway, the MC33 road, the

main GP1 road, by tram and train. The first phase will be constructed in 1995-1997.

It includes:

- The development of the site. - The 80,000 seat football stadium with 35,000 covered seats. The 10,000 seat indoor multi-purpose arena. The 80,000 seat stadium and 10,000 seat indoor areas will be constructed on
- a "turn key" basis. The successful team will provide the design, construction and financing. The team will be selected through an international competition. This competition will be announced in national and The design of these facilities shall be competitive with facilities recently

constructed or under construction in the world, in all respects, and will anticipate the needs of Tunisia well into the coming century. This Complex will allow Tunisia to host major national or international

sporting event and will comply with all international standards and requirements for the competitions to be held. These facilities will offer a high standard of architectural quality that will take into account the national architectural heatage and the context of the

For more information, the following provisional documents can be exact at the Realisation unit of the Olympic City November 7th, 1987 (address: Carrefour GP1 - Avenue de France Ben Arous).

Provisional documents:

- Location Plan Site development Plan. Punctional and technical Programs.
- Report on the prehimmary geotechnic campaign

SGS Société Générale de Surveillance Holding S.A. 8, rue des Alpes - 1211 Genève 1

PAYMENT OF DIVIDEND

Notica is hereby given to shareholders that following a resolution passed at the Annual General Meeting of the Company held on 9th June, 1995, a dividend for the year 1994 will be paid as follows:

CHF 10.00 gross for each registered share of CHF 20 nominal value

(reference number 249 746)

(reference number 249 745) CHF 6.50 net: per share, after deduction of Swiss federal withholding tax of 35%, and CHF 50.00 gross for each bearer share of CHF 100 nominal value

CHF 50.00 gross for each bon de jouissance category A without nominal value (reference number 249 733)

CHF 32.50 net per bearer share or bon de jouissance, after deduction of Swiss federal

Registered shares

The dividend will be paid, free of charge, as of 14th June, 1995, upon presentation of coupon No 30 (bearer shares) and of coupon No 16 (bons de jouissance) to any branch in Switzerland of Union gank of Switzerland, Picter & Cie, Bank Julius Bâr & Co. S.A., Bank Sarasin & Cie, Bank J. Vontobel &

Shareholders ere reminded that, in eccordance with the Statutes of the Company, any dividend not claimed within 5 years of its due date, becomes statute-barred in layour of the Company (i.e. as of 3rd July, 1995 for bons de jouissance coupon No 10)

Geneva, 12th June, 1995.

S.G. Warburg Group plc

Dated 12th June, 1995

By Order of the Board L B. Marshall

Registered office: 1 Finsbury Avenue

ADVERTISING appears in the UK.

edition every edition every Friday

For further information please call:

+44 0171 873 4054 **Toby Finden-Crofts on**

The dividend will be paid, tree of charge, on 14th June, 1995, directly to the shareholders on record. Bons de louissance and bezrer shares

withholding tax of 35%

Co. S.A. and Bordier & Cie, or at the registered office of the Company.

On behalf of the Board of Directors The Chairman Elisabeth SALINA AMORINI

6.5 PER CENT. SUBORDINATED **CONVERTIBLE BONDS 2008**

NOTICE IS HEREBY GIVEN to holders of the above Bonds that the document describing the proposed scheme of arrangement under Section 425 of the Companies Act 1985, pursuant to which a reorganisation of the S.G. Warburg group of companies will be effected and, inter alia, holders of Ordinary Shares in S.G.Warburg Group pic will receive cash and shares in Mercury Asser Management Group plc, is available from the offices of the Paying Agents and the Registrar.

APPOINTMENTS

Wednesday & Thursday and in the International

Andrew Skarzynski on

+44 0171 873 3456

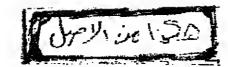
Will Thomas on +44 0171 873 3779 -

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WORLD INTEREST RATES

MONEY RATES



FINANCIAL TIMES MONDAY JUNE 12 1995 *		
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Andrew Skarzynski on 444 171 873 4054

Stephanie Cox-Freeman on +44 171 873 3694

SICAV Luxembourg, 11, rue Aldringen R.C. Luxembourg N° B 38653

Notice of Extraordinary General Meeting

As the Extraordinary General Meeting of 12 May 1995 did not reach the quorum of 50%, the shareholders are hereby invited to attend the second Extraordinary General Meeting which will be held at the registered office of the Company on 28 June 1995 at 11.00 a.m. with the following agenda:

Decision to put the company into liquidation. Appointment of Fin-Contrôle S.A., 11, rue Aldringen, L-1118 Luxembourg as liquidator. Attribution to the liquidator of the largest possible powers

The shareholders are advised that no quorum is required for the items of the agenda and that the decisions will be taken at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy. By order of the Board of Directors

THE HEDGE FUND (\$) II

SICAV Luxembourg, 11, rue Aldringen R.C. Luxembourg N° B 40 693

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Agenda

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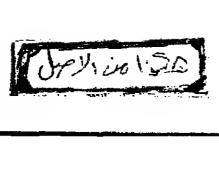
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	FT Cityfine Unit Trust Prices: dial 0891 430010 and key in a 5 digit code liste Company Code	ed below. Calls are charged at 39p/minute civilap rate and 49p/minute at all other	times. International access available by subscription only. For more details call the	FT Cityline Help Dest: on (+44 171) 873 4378. Salling Supray That Day- Hour Steel Live Retail Price Days Hour Steel Live Retail Price Days
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MONDAY

EU foreign ministers meet



European Union foreign ministers meet for two days in Luxembourg to prepare for the Cannes summit at the end of the month. Ministers hope to agree in principle the EU's

external spending priorities in the next five years. They will also consider a Commission request for powers to negotiate a free-trade agreement with South Africa and whether to unblock an interim agreement with Russia held up

because of the war in Chechnya. Association agreements with Estonia, Latvia and Lithuania are also due to be signed, paving the way for their eventual

European Parliament session

The European Union's elected assembly holds a week-long plenary session in Strasbourg. The parliament will hear the plans for the Cannes summit. Also on the agenda are economic and monetary union and a proposal to set up a special rapid response unit for Bosnia.

German Ideas on Emu

The bane of Eurosceptics, Karl Lamers, foreign policy spokesman for Chancellor Helmut Kohl's CDU party, meets other senior members of the party in Berlin to refine the paper he presented in September 1994 suggesting an inner core of European Union countries should be prepared to go it alone on monetary union. Mr Lamers is unrepentant, despite the outcry at the time, saying in a recent interview that the debate now was about "opting in" on Europe's future and not the other way round.

Sweden speaks on Emu

Sweden's Social Democratic government will set out its plan to meet the EU's convergence targets for European Monetary Union. It has already promised a heavy privatisation programme and more savings to cut the budget deficit and stabilise the country's sky-high debt, but markets remain sceptical that it can meet Emu targets by 1998.

BIS meeting and report

The Bank for International Settlements. the central bankers' bank, bolds its annual board meeting and releases Its 65th annual report after a weekend of highly secretive meetings. The markets will be watching for any hint that Group of Seven banks are preparing for co-ordinated action in support of the dollar. Meanwhile, the report will be scrutinised for signs of concern about the recent financial market turbulence and derivatives scandals.

US and Japan talk cars

Japanese and American negotiators meet today and tomorrow at the World Trade Organisation in Geneva to try to resolve their car trade row. Japan says threatened US sanctions on nearly \$6bn of Japanese houry car imports violate WTO rules. Washington wants Japan to open its market to more foreign cars and car parts.



Rao visits France

P.V. Narasimha Rao, India's prime minister, leads a trade delegation to France to meet President Jacques Chirac, prime minister Alain Juppé and captains of French industry. India will also seek France's support in combating terrorism.

CBi boss visits Mexico

Howard Davies, director-general of the Confederation of British Industry and soon-to-be deputy governor of the Bank of England, starts the first full day of a visit to Mexico (to June 14). Mr Davies will be discussing the problems of achieving international monetary stability with President Ernesto Zedillo and the governor of the Bank of Mexico, Miguel Mancera. The UK is the second-largest investor in Mexico after the US.

Indian Ocean forum



A two-day forum on the Indian Ocean Region opens in Perth, Western Australia. Participants from governments, the private sector and universities of some 30 countries which border the

Indian Ocean are due to discuss a mixture of economic, trade, security, and maritime issues. The forum meets amid calls for the Indian Ocean countries to emulate the dialogue in the Asia-Pacific region.

Crackdown in Nigeria

Nigeria's military regime has arrested civilian opponents and reinforced its paramilitary police in Lagos and the south ahead of protests planned to mark the

second anniversary of the presidential election. The poll was annulled in June

1993 after Moshood Abiola had emerged as the winner. A year ago Ablola declared himself president, was arrested and charged with treason. This led to months of strikes and protests. Abiola is still in jail and the government has yet to come up with a plan for democratic rule.

Tennis



FT Surveys

Turkey and Aerospace.

The Stella Artois grass court championship starts at Queen's Club, west London (to June 18). The event traditionally allows players to get in the rhythm of playing on grass

as they prepare for the Wimbledon tournament which begins on June 26.

Holidays

Australia (except Western Australia), Cyprus, Greece, Paraguay, Philippines (Independence Day), Russia (Independence Day), Sri Lanka,

TUESDAY 13

Bosnia mediators meet The steering committee of the International Conference on Former Yugoslavia meets in Geneva to take stock of the flagging peace process. United Nations mediator Thorvald Stoltenberg will be in the chair. Former Swedish premier Carl Bildt takes over from Lord Owen as co-chairman and European Union mediator in the four-year-old conflict.

Ruggiero in Washington Renato Ruggiero, head of the World Trade Organisation, meets Mickey Kantor, US trade representative, and Robert Rubin, US treasury secretary, in Washington to discuss WTO negotiations on financial services, due to conclude by June 30. The US stance will be crucial in determining whether the talks succeed or fail.

US small business forum

At a White House conference on small business, companies will be urged to take advantage of trade opportunities in the world's fastest growing markets.

Holidays

Portugal (Lisbon only), Russia.

WEDNESDAY

UK economic policy

Kenneth Clarke, chancellor of the exchequer, delivers his annual Mansion House speech in London, which normally concentrates on monetary policy. Some economists expect Mr Clarke to announce what inflation target he plans to pursue after the next election. Tory backbenchers will be looking for hints of tax cuts.

Trade union report

ECONOMIC DIARY

The International Confederation of Free Trade Unions publishes its annual survey of human rights violations against trada unionists around the world, to coincide with the annual conference in Geneva of tha International Labour Organisation. A record 98 countries are accused of abuse ranging from administrative interference to arrests and assassinations

FRIDAY

William Aramony, former president of the United Way of America, an umbrella organisation for US charities, is sentenced for stealing more than \$600,000 from the organisation. Revelations about his perfidy hurt charities across the US.

He did it his way

THURSDAY

G7 summit opens in Canada

Heads of government and finance ministers from the Group of Seven leading industrial countries gather in Halifax, Nova Scotia, for their three-day summit. Topics for discussion include ways to equip the International Monetary Fund to deal better with financial crises such as that which struck Mexico earlier this year. and reform and rationalisation of the United Nations. But the formal agenda may well be overshadowed by events in Bosnia.

Russia's President Yeltsin is expected to arrive at the end of the first day of global economic talks to take part in a second day of mainly political discussions.

UK politics

A by-election is held in the Northern Ireland constituency of North Down, caused by the death of the independent Unionist, Sir James Kilfedder. ft is the first since the IRA called a ceasefire in

September 1994. The independent UK Unionist Robert McCartney, a leading barrister and ardent critic of the Anglo-Irish framework document that has guided the political process in the province, is expected to defeat the Ulster Unionist candidate, further reducing the government's majority in the Commons. Sir James had been largely loyal to Prime Minister John

Lavish art prizes awarded

The most extravagant arts awards in the world, the Praemium Imperiale, are to be distributed at the Banqueting House in London. They are financed to the tune of Y75m (\$890,000) by the Japan Art

Five prizes each worth Y15m are given to artists in the fields of painting, sculpture, theatre\film, architecture and music. The winners tend to be the globally established; past recipients include Sir John Gielgud, David Hockney and Mstislav Rostropovich.

Golf



Watch out for a revitalised Ernje Els in the US Open at Shinnecock Hills, New York. He has run into form at just the right time, winning the recent Byron Nelson Classic in Texas with birdies at four of the final six holes.

FT Survey Telecommunications in Business.

Holidays

(Corpus Christi).

ustria, Bolivia, Brazil, Chile, Costa Ri Catholic parts of Germany, Poland

US local government US Conference of Mayors. City officials descend upon Miami to discuss mutual

problems and their solutions.

Parking

Page 6

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Japanese calamities

Japanese government to release white. paper on disaster prevention.

Holidays

South Africa (Youth Day).

SATURDAY

The United Nations has declared today the first World Day against desertification and drought. This now affects nearly a quarter of the earth's surface, more than 100 countries and more than 1bn people.

Reichstag wrap-up

Christo, the Bulgarian artist with a penchant for packaging Parisian bridges and islands off Florida. will start wrapping Berlin's Reichstag. The building is just metres away from where the Berlin Wall used to stand.

The operation, planned since 1971, is expected last a week and to cost about DM13m (\$9m), ft will be financed through the sale of prints of the vast parliament building enfolded in 100,000 sq m of the material that has become Christo's

Motor racing



The Le Mans 24-Hour Race begins. Much of the interest will centre on the McLaren F1 supercars, competing at the French circuit for the first time.

SUNDAY

French municipal elections

18

Voters go the polls for the decisive second round of municipal elections which will determine the balance of local political power. The right hopes to capitalise on Jacques Chirac's presidential election victory last month, while the Socialists are seeking to reverse a decline in their influence in municipal politics. Local issues, however, will dominate the battles for the more than 500,000 local council seats and control of France's 36,600 cities, villages and towns.

Japanese politics

The Diet session is due to end.

Compiled by Patrick Stiles. Fax: (+44) (0)171 873 3194.

Other economic news

Monday: A two-day World Bank conference on Latin America and the Caribbean begins in Rio de Janeiro. UK producer price inflation is thought to have picked up

Tuesday: US retail sales are thought to have more than reversed April's small fall last month. Growth in the French economy is forecast to have acceler-

ated slightly in the first quar-

slightly in May.

ter of the year. Wednesday: The Bundesbank's policy-making council meets in Magdeburg, in the eastern German state of Saxony-Anhalt. No interest rate cuts are expected yet, but - as usual when the German central bank meets outside Frankfurt - a press conference

Theo Waigel, finance minister, will attend the meeting before flying to the G7 summit

will be held.

inflation is thought to have been relatively stable last month, while retail sales are expected to recover after their unexpected drop in April. Friday: The UK government

is expected to have borrowed

£3.5bn last month, down from

ACROSS

1 Listens to the complete record; an impartial judge does (5.4.5)

10 It was ground in the gutter (5) 11 The last word in disputes (9)

12 A drifter of a coldly detached

14 Boring commercial for wood spirit (5)
18 University having two schol-

ars in exchange (4.5)
19 Now prepared to be spoken to

20 Animals there's a market for

22 We stop dancing after square

dance (3-4) 25 Much of his life is spent behind bars (7)

27 It gives details of a reduced

28 Asida given to an actor to

29 Prospects of a cosy retirement (8,6)

fare (4,5)

speak? (5)

nature (7) 13 An idiot is not sharp (7)

£4.3bn in April.

UК

DOWN

2 Having the look of a powerful filer (5-4) 3 Wander about in the moun-

5 It came up to beat a giant (5) 6 Occasionally I seem most

8 He has a taste for a bit of

9 Took off and rose to the occa-sion in mid-air (6)

15 They take part in acts of

17 Thought me old fashioned

about u (9)

18 Where to see the beginning –
and end – of the rainbow (5-4)

19 Caused trouble, getting Bill
and Edward out of bed (5.2)

21 Eastern style of serving

23 Overweight round-headed

annoyed (9) Prevent animal swallowing

down in Kentucky? (9)

the tin opener (5)

embroidery (7)

duplicity (9)

wild bees (5) 24 Clean down (5) 26 Calm sports master (5)

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Miserable informer mown

in Canada.
Thursday: UK retail price

Day

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecest	Previous Actual
Mon	France	May consumer price indx, prelim**	1.6%	1.6%
June 12	UK	Mey producer price inck input	0.4%	0.7%
	UK	May producer price inch Input	10.3%	11.5%
	UK	May producer price Indx output*	0.3%	0.4%
	UK ·	May producer price indx output**	4.1%	4%
•	UK	May PPI, ex-food, drink & tobacco**	4.2%	4.1%
•	Spain	Apr producer price Indx**	7.5%	7.1%
Tues	US	May retail sales	0.8%	-0.4%
June 13	US	Ditto ex-autos	0.4%	0.1%
	US	May consumer price Indx	0.3%	0.4%
	US	Ditto ex-food & energy	0.3%	0.4%
	US	May Atlanta Fed Indx	-	-22.1
	US	May real earnings	-	0.5%
	US	Johnson Redbook w/e June 10	- .	1.8%
	Japan	Apr machine orders ex-power/ships*	0.3%	-0.6%
	Јарап	Apr mach orders ex-power/ships**	7.8%	0.1%
	France	1st qtr GDP prelim, qtr on qtr	0.5%	0.6%
	Spain	May consumer price indx*	0.3%	0.5%
	Spain	May M-1"	-	10.7%
Wed	US	1st qtr productivity revenue	•	0.7%
Jane 14	US	Apr business inventories	0.7%	0.7%
	France	Mar current a/c	FFr8bn	FFr8.6bn
	UK ·	May unemployment	-18,000	-18,800
	UK	Apr average earnings	3.75%	3.5%

Apr unit wages 3-m"

2.1%

1.8%

Released	Country	Statistic	Forecast	Actual
Thur	US	Initital claims w/e June 10	375,000	372,000
June 15	US	State benefits w/e June 3	-	2.59m
•	US	May industrial production	-0.3%	-0.4%
	US	May capacity utilisation	83.5%	84.1%
	US	June Philadelphia Fed Indx	-	-16.4
	Japan	Apr industrial production†		-0,2%
	Japan	Apr shipments†	-	2%
	Japan	May wholesale price indx"	0.0%	-0.8%
	Japan	May wholesale price indx**	-1.6%	-1.5%
	UK	May retail price indx*	0.4%	1%
	UK	May retail price Indx**	3.4%	3.3%
	UK	Ditto, ex-mortgage Int payments**	2.6%	2.6%
	UK	May retail sales*	0.3%	-0.2%
	UK	May retail sales*	1.1%	0.8%
	Canada	May lead indicator*†	-	0.2%
Fri	US	June Michigan sentiment, prelim	-	89.8
June 12	UK	May public spending borrowing req	£3.5bn	£4.3bn
	Canada	May consumer price indx, all items**	- :	2.5%
During t	he week			
	Japan	May trade balance, customs cleared	-	\$6.5bn
	Japan	1st our gross domestic productf	2.1%	-3.4%
	Germany	Feb menufacturing orders*	3.5%	-7.4%
	Germany	May wholesale price Indx*	0.1%	-0.1%
	Germany	Apr retail sales, real .	1%	-7%

No.8,785 Set by DANTE A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 22, marked Monday Crossword 8,785 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 26. Please allow 21 days for delivery of

MONDAY PRIZE CROSSWORD

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J. Ford, St Austell, Cornwall

gow Judy Smith, London SW14

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TAFFETA CAICKEI
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CANDLE FACTORY
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Solution 8,773

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Global aerospace companies are looking with growing interest at China. Page 6

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FINANCIAL TIMES SURVEY

AEROSPACE

Monday June 12 1995

Leading European airports are working on ambitious expansion plans. Page 9

Orders fail to materialise

Despite impressive developments in high technology products, a fragile airline industry is still not providing enough business to go round, says Michael Skapinker

aircraft in 13 years. Less than a week later. Boeing employees heard that the total number of expected joh losses at the group this year had risen from 7,000 to 12,000:

The bewildering speed with which bad news followed good is not unique to Boeing, the world's largest aircraft manufacturer. Throughout the aero-space industry, senior executives mix talk of new high technology products with fear for the economic future of their companies.

Boeing says that its new twin-jet aircraft, which carries up to 400 passengers, attracted 144 firm orders and 99 options. even before it entered commercial service. Yet a relentless reduction in jobs remained necessary hecause of the intense competition in the aircraft market. By the end of this year, the group is expected to have 105,000 employees, com-pared with about 166,000 at the end of the 1980s.

At Airhus Industrie, the European manufacturing consortium, similar concerns can be heard, Jean Pierson, Airbus' managing director, says the four companies which own the consortium - Aerospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain - have had to make similar adjustments to a more competitive market.

A problem facing aircraft world is the still-fragile state of 22 Boeing 747-400s and 30 Air-

his spring Boeing the airline industry. The proudly unveiled its new world's airlines made an aggre777 at Boeing Field in gate \$1.85n net profit last year gate \$1.8bn net profit last year on their international scheduled services - their first profit since 1989 - but this figure represented only 1.6 per cent of the airlines' aggregate reve-

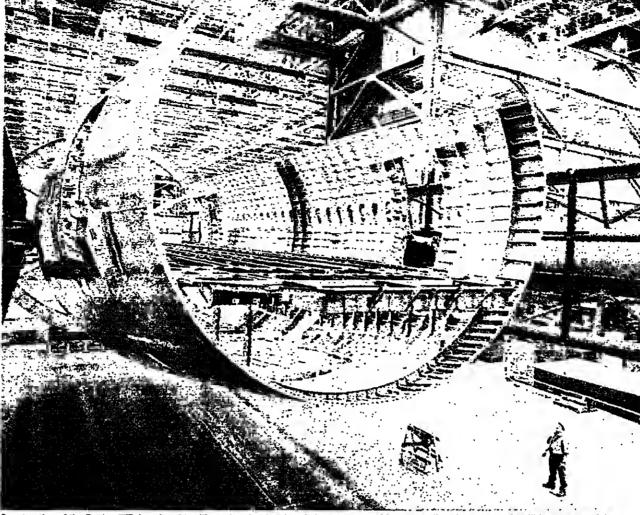
The industry's two star performers, British Airways and Singapore Airlines, both announced profit increases last year, but warned that yields revenues per kilometre travelled by paying passengers remained subdued.

BA made pre-tax profits before exceptional items of £452m for the year to March 31, an increase of 61.4 per cent. The results were dented bowever, by a £125m exceptional provision against BA's investment in USAir, the loss-making carrier in which it has a 24.6 per cent stake.

Singapore Airlines announced group pre-tax profits of \$676m, an increase of 9.9 per cent but said passenger load factor - or aircraft occupancy - fell 0.5 percentage points to 70.9 per cent. Passenger yields fell 1.8 per cent.

A had better news on A had better news on its passenger load factor, which increased 1.6 percentage points to 71.6 per cent. But Sir Colin Marshall, BA's chairman, said the airline's passenger yield increased by only 0.6 per cent and would remain under pressure.

Both airlines have ambitious fleet expansion plans. Singapore Airlines last year placed a manufacturers, around the \$10.3bn order for 52 aircraft -



Construction of the Boeing 777; in spite of healthy orders for the aircraft, intense

hus A340-300Es for delivery hetween next year and 2003. Eleven of the Boeing and 10 of the Airhus aircraft are firm orders, with the remainder being options.

BA also plans to modernise its fleet, with older, more noisy aircraft being phased out by the beginning of the next century. BA says that by 2010, its long-haul fleet at its Heathrow airport hase will consist of Boeing 747-400s, enlarged versions of the 747 and the "superjumbo" aircraft that it hopes will be built. The airline also has 15 firm orders and 15 options for the new Boeing 777. Both Boeing and Airbus are

convinced the long-term future of the industry is bright. Airhus forecasts that airlines will spend over \$1,000hn on 13,400 aircraft over the next 20 years. Boeing has produced similar figures, saying it expects orders for about 15,400 aircraft from all manufacturers over

the next two decades. About 5,400 of these will be replacement aircraft, Boeing says. New noise regulations will mean companies having to replace older aircraft such as Boeing 727s and 737-200s, as well as DC-9s. There will be an additional demand for about 10,000 new aircraft, based on projected airline traffic growth

of about 5 per cent a year. But Ron Woodard, president

of Boeing's Commercial Airplane Group, warns: "This growth rate is based on several assumptions, of course, such as no more Gulf Wars, no sudden run-ups in oil prices, no worldwide depression."

In the meantime, however, some airlines, such as Air France, have cancelled orders and options. Mr Pierson says that, in the short-term, many airlines seem determined to hold on to their old aircraft for longer periods rather than order new ones.

Philip Condit, Boeing's president, believes passengers will

continue to place airlines under pressure. He says: "I

think there will be a continued

thrust for, in the British ver-

nacular, value for money: if I

pay more, I get more."
The result, aerospace executives say, is that any new product, such as a "super-jumbo", will have to have lower operating costs per seat than aircraft flying today. The "super-jumbo" has its adherents, led hy Sir Colin Marshall of BA, whose company needs larger aircraft to help ease congestion at Heathrow airport. There are also executives, such as Louis Gallois, chairman of Aerospa-

tiale, who believe that the

aerospace industry should concentrate instead on building a supersonic successor to Con-

A joint study between Boeing and the Airhus shareholding companies into the feasibil-ity of a passenger jet capable of carrying 600 or 800 passengers is due to be competed this summer. Mr Condit and Frank Shrontz, Boeing's chairman, are unwilling to prejudge the outcome of that study.

Both concede, however, that the market for a new large passenger jet does not appear to be large enough to justify pro-ceeding with development. The consensus in the industry is firmer: the "super-jumbo" will not be built.

Mr Pierson says that only

BA has expressed all-out enthusiasm for an extra-large subsonic aircraft, with Singapore Airlines also showing some interest. This is not a large enough market to justify the investment, he says.

Mr Shrontz agrees: "We would have to have more than just British Airways in the launch programme." Other airlines would have to place orders relatively quickly to jus-tify the large launch costs of the aircraft. Other potential customers are "a bit thin right now. And that's not surprising. Most airlines, unlike British Airways, are struggling finan-

Industry observers think that a more likely scenario than a "super-jumbo" is that Boeing will huild a "stretched" version of the 747 and that Airhus will enlarge its A340 aircraft. Mr Gallois argues that if world aerospace companies decide to abandon a larger subsonic aircraft, they should devote their energies to a supersonic jet. The development costs of the two projects are about the same, he says -\$15bn. Companies would have to co-operate on a new supersonic aircraft, he says. It is too big a project for any company

to carry out alone. Mr Shrontz says of a new supersonic jet: "There's a wide division of opinion in the Boeing company. I happen to be on the side that says that while it's not just round the corner.

IN THIS SURVEY Manufacturers: the battle between Airbus, Boeing and other competitors Regional aircraft: the joint venture between ATR, the Franco-Italian manufacturer. and British Aerospace is only the start of consolidation in the regional industry-Engine manufacturers: the fight to win orders for more powerful jet engines Super jumbos: plans to develop an aircraft carrying hundreds of passengers Concorde and its successor Concorde has been flying for 19 years. What aircraft could succeed it? Profile: Fokker Airlines: many still need to cur costs, and all have to deal with stiff price competition .. Country profiles: a look at how governments and industry are dealing with aerospace in: China; Japan France: Germany; Russia Italy; the UK; the US ... Space: commercial operations are developing fast
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together to plan a new military transport aircraft, but its future is uncertain Helicopters: the UK and the Netherlands are preparing to make helicopter purchase decisions which should provide an Indication of manufacturers' prospects Profile: Eurocopter The defence/civil split to what extent do the defence and civil sides of aircraft construction support one another? Missiles: moves towards

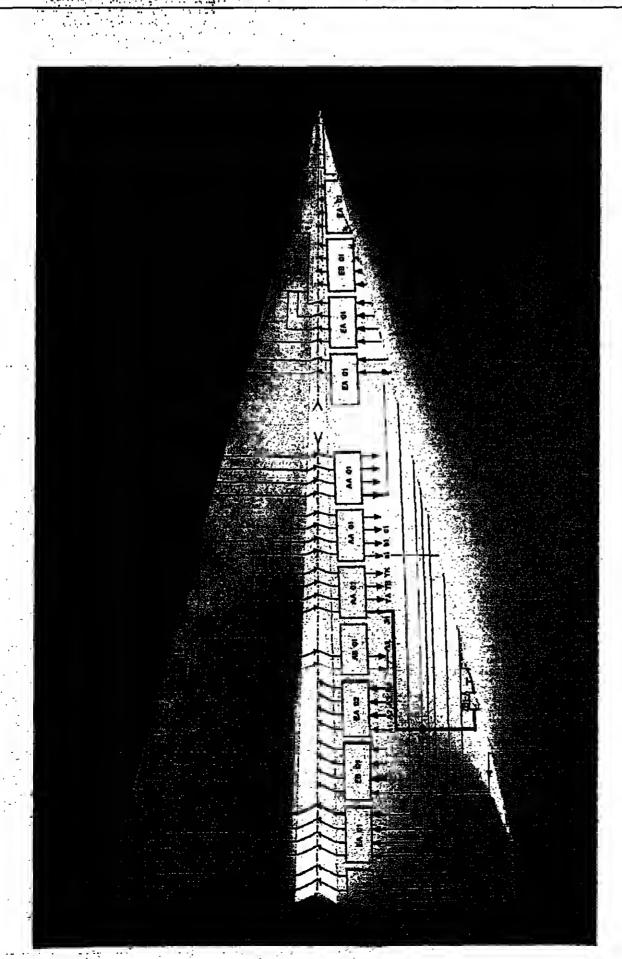
missile manufacture.

Editorial production:

expenditures

Future large aircraft:

European countries have come



Can you simplify the global exchange of technology?

Technology transfer is like teaching: it's best done face-to-face. When Thailand legislated that industrial users had to supply their own electricity substations, the local economy didn't

have the know-how. ABB's worldwide power distribution group reacted with a swift hands-on transfer of technology. A "Tiger Team" of technicians flew in from Scandinavia and Saudi Arabia, teaming up with Thai engineers to share skills and experience. Together they handled the first project for the Thai Plastic Company. Next, ABB started local assembly and manufacture of switchgear, creating a whole new industry. Local firms now supply parts and plant - steel structures and cables - previously imported. The "Tiger Team" remains involved in information exchange, but now the students are teachers, too.

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ichael Donne finds

AEROSPACE 2

Michael Skapinker analyses the competition between manufacturers

Fierce rivalry continues

When Boeing of the US, the world's leading aircraft manufacturer, launched its 777 passenger jet, it decided to remake the company as well.

Boeing says It now works with potential airline customers at every stage of the planning, design and manufacturing process. Within the company, different departments are now encouraged to work together.

Airbus Industrie, the European consortium which is Boeing's largest rival, retorts that it bas been working closely with customers for years. But several senior figures in Airbus believe that they, too, need to remake their organisation, turning it from a non-profitmaking partnership into a fully-fledged limited company.

The rivalry between Boeing and Airbus is fierce. Boeing remains the leader, with about two-thirds of the international market for civil aircraft over the past few years. Airbus bas about a third of the market and has displaced other US manufacturers such as Lock-heed and McDonnell Douglas, which is now in a distant third

Last year, Airbus said it won more orders than Boeing for the first time since the European consortium was founded in 1970. Airbus said: "It's the first time since the advent of the jet age that Boeing has lost its number one spot in airline

Boeing has dismissed last year's order figures as being of little significance. It says that what is important in the aerospace industry is bow many aircraft a company actually delivers, not how many orders it achieves. Boeing believes It will bold on to its number one

Frank Shrontz, Boeing's chairman, says: "I don't think the fact that they have more orders is significant. They are clearly broadening their product line and they do have significant resources behind them. I don't think we've taken them lightly but we are deterposition in the market."

All the same, competition from Airbus was clearly a factor in Boeing's decision to launch the 777, a twin-jet aircraft designed to compete against the Airbus A330 and

United Airlines, the launch customer for the 777, shame-lessly played off Boeing

It is unlikely that Boeing will build future new aircraft alone. It is talking to Asian companies about collaborating on future small aircraft. On larger aircraft, the two rivals, Boeing and Airbus, are talking about working with each other.

Boeing and the four companies which own Airhns -Aerospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany. British Aerospace and Casa of Spain - are studying the development of a Very Large Commercial Transport (VLCT), with Airbus itself as erver. The two sides see the VLCT as a double-decker aircraft, capable of carrying 600 or 800 passengers.

Boeing is talking to Asian companies about collaborating on small aircraft

against Airbus and McDonnell Douglas, with its MD-11 air-Gordon McKinzie, United's 777 programme manager, describes how, in October 1990, the airline invited all three manufacturers to try to make the case for their aircraft at a series of meetings in Chicago. Also invited were the world's three leading engine manufacturers. General Electric and Pratt & Whitney of the US and Rolls-Royce of the UK. United chose the 777, with Pratt & Whitney engines, and then worked closely with Boeing on the development of the air-

Boeing also worked with three Japanese manufacturers Mitsubishi Heavy Industries, Kawasaki Heavy Industries and Fuji Heavy Industries together huilt 20 per cent of

There is doubt on both sides that the market for such an atrcraft is blg enough, with only British Airways and Singapore Airlines expressing any real interest

There also appears to be some doubt on both sides as to wbetber the two organisations could work together on the project. Some of the wariness was apparent in comments made in Seattle last month by Ron Woodard, president of the Boeing Commercial Airplane Group

Mr Woodard said that while the two organisations were still studying the VLCT, "Airhus is eager to go it alone". Jean Pierson, managing director of Airbus, has expressed doubts about whether the difference in culture between Boeing and the European consortium would make co-operation feasible.

culture. Since its inception, the consortium has been a Groupement d'Intérêt Economique (GIE). Under French law, a GIE makes no profits or losses in its own right. All profits and esses accrue to the four shareholders in proportion to their stakes. Aerospatiale and Dasa each have 37.9 per cent, British Aerospace has 20 per cent and Casa has 4.2 per cent.

Mr Pierson, strongly supported hy British Aerospace. wants to see Airbus become a profit-making company. Louis Gallois, chairman of Aerospatiale, says he is not opposed to change either.

We are pragmatic for once," says. "The French are not used to being pragmatic but we are on this one. We have to find a solution to improve Airing. If we have to create new entities to improve the func-tioning of Airhus, there's no opposition from the Aerospatiale side.

Manfred Bischoff, the newlyappointed chief executive of Dasa, is slightly more cautious about changing the legal status of Airbus.

He says: "Contrary to what public opinion usually assumes, the structure we have today, the GIE and the Airbus system, has considerable advantages. It brings together the creativity of nations that have a lot in common but that are partially different. I know it's nonsense to talk about the typical French, British or German person, but there are some attributes of those countries that we find working together creatively in

Mr Bischoff says he is not opposed to change. "I believe today every Airbus partner



tage to be a simple company. But the question we have to answer is: who would run that company? I believe all four nations have to stay involved." Mr Plerson also believes the

four partners will have to retain their existing shareholdings in a limited company, at least for the first five years.



Regional aircraft manufacturers are forming alliances

Consolidation seen as the way forward

Earlier this month, French, British and Italian manufacturers are expected to finalise plans to market regional aircraft jointly.

In Asia, industrialists are talking to European and US companies about bow they too can manufacture 100-seat or 120-seat aircraft.

Many countries with aspirations to be aircraft manufacturers hope to begin by making small turhoprops or jets to carry passengers on shorter routes. There are 17 companies involved in the regional aircraft husiness, from Casa of Spain to IPTN of Indonesia.

New entrants hope to manufacture regional aircraft because the start-up costs are lower than those required for making large passeoger jets. The market for regional air travel is growing fast. The European Regional Airlines Association says passenger growth in Europe increased by 15.2 per cent last year over

Mike Ambrose, the association's director general, says the regional air travel industry in Europe does face problems. including the bigh level of landing fees, air traffic control charges and taxes. He says, however, that many

air travellers bave come to appreciate the convenience of flying on sbort journeys in smaller aircraft, whose quality has improved. He says: "Europe's frequent flyers are realising that their local option offers much more than in the past in terms of convenience, quality and aircraft technol-

In the US, regional air travel has also been growing more quickly than flights in larger aircraft. The Regional Airline Association of the US says its members' traffic rose by 10 per cent last year. This compares with an increase of 5.3 per cent in passengers making internal US flights in larger aircraft. The problem is, however,

that while the number of passengers flying on regional routes is rising, few companies making the aircraft to carry them are making profits on these operations.

Competition between manufacturers is so fierce that British Aerospace said earlier this year that it was losing money on its Jetstream 41 30-seat turboprop even though it had two years' worth of orders for the

In an attempt to stem their losses, BAe, Aérospatiale of France and Alenia of Italy have set up a joint venture, merging their regional aircraft sales and marketing companies. Aerospatiale and Alenia already manufacture regional aircraft together as part of the ATR joint venture.

The new three-way alliance will have its headquarters in Toulouse, also the home of the Airhus Industrie manufacturing consortium, which makes larger passenger jets. Eventu-ally, the regional aircraft alliance might begin joint manufacturing. Some in the aircraft business

helieve, however, that the three-way European alliance does not go far enough in rationalising the sector. Unless Asian manufacturers are included in regional aircraft A common approach to

regional aircraft makes it more likely that Asian manufacturers would choose European partners than US ones

alliances, they say, the joint ventures will have little chance of succeeding. Much of the growth in regional air travel will, on this view, occur in Asia.

Not everyone agrees, bowever. Adam Brown, Airbus' bead of strategic planning, says that over the next 20 years, 70 per cent of demand for 100-seat aircraft will come from airlines in Europe and North America. Only 10 per cent of demand will come from airlines in the Asia-Pacific region and China.

With most demand for regional aircraft coming from airlines in mature western markets, Mr Brown warns: "Aspiring Asian suppliers of such an aircraft would note that these airlines may not be the most easily attracted by a 'Made in Asia' label."

The dearth in demand for regional aircraft in Asia will not be because local residents to not want to travel. Mr Brown says growth in Asian markets will be higher than in the west. Over the next 20 years, he expects air travel in North America to grow by 3.7 per cent annually. In China, on the other hand, he expects average annual growth of more than 10 per cent.

Asian airlines will absorb this growth, however, by flying with larger aircraft rather than smaller ones. Worldwide, the average number of seats in each aircraft is expected to rise from 179 today to 240 by the year 2014. Airlines in the Asia-Pacific region, however, will be T. 5. 15.

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flying aircraft with an average of 356 seats by 2014. But many in the industry believe that they should conclude agreements with Asian manufacturers. Manfred Bischoff, chairman of Daimler-Benz Aerospace (Dasa), which is not part of the new European joint venture, says: "All-European solutions are no longer sufficient to safeguard the future. Daimler-Benz thinks it necessary to pass European borders and extend these activlties to the Asian countries."

Dasa could do with a partner to help fund future ventures Dasa's 51 per cent-owned regional aircraft subsidiary, Fokker of the Netherlands, is a heavy loss-maker. Fokker made a net loss of Fl449m in 1994. This followed a record

loss of Fl460m loss in 1993. In March, Dasa signed an agreement with a South Korean consortium, headed by the Samsung group, to develop regional aircraft together. Both the Korean consortium and Dasa have also agreed to develop regional aircraft with Aviation Industries of China.

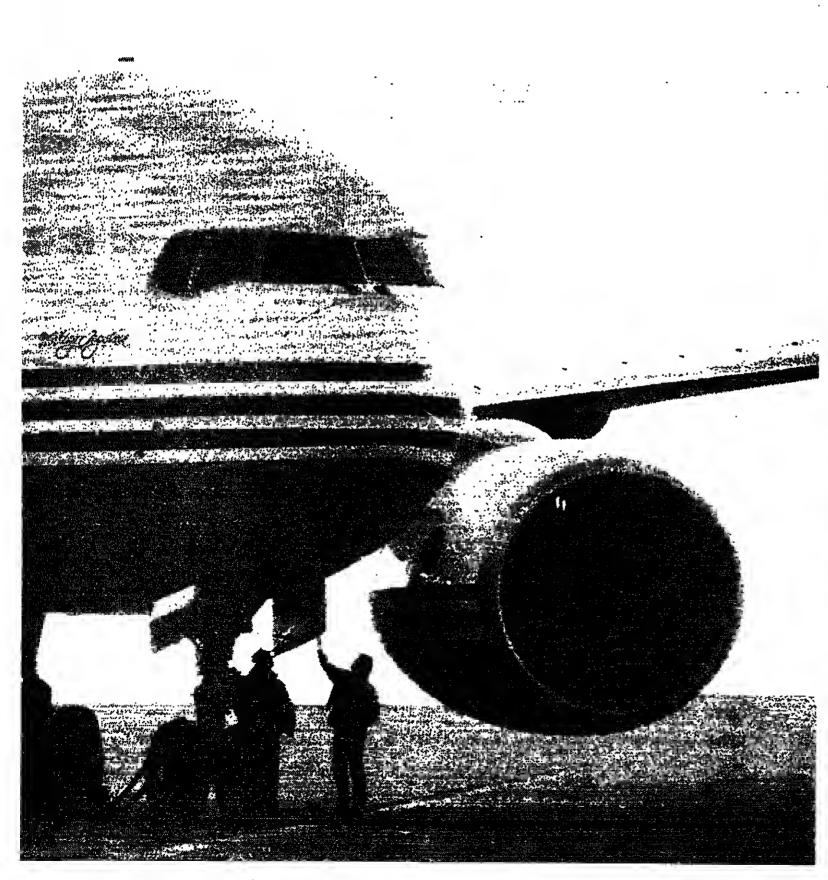
The companies will prepare a feasibility study looking into building a jet capable of carrying between 100 and 120 pas-

Dasa has made it clear that it would welcome other European manufacturers who wish to join it in developing new aircraft with Asian partners. It has received a positive response from Louis Gallois,

chairman of Aérospatiale. Mr Gallois says that after ATR and BAe have established their joint venture, they will have to think of ways of co-operating with Dasa and Asian manufacturers. European companies should not divide themselves into two warring camps.

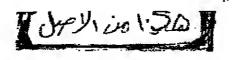
he says. A common approach to regional aircraft would make it more likely that Asian manufacturers would choose European partners than US ones. Mr Gallois says: "I am convinced they will choose a European solution if we are united."

Michael Skapinker



The Boeing 777. Here. Now.

BOEING



Michael Donne finds smaller engine builders need alliances to survive the competition

International liaisons emerge

every contract won is the

The company is involved across the full spectrum of

civil engines, from the 1,900lbs

thrust Williams-Rolls FJ-44 for

small, affordable business jets, through the Tay of about

14,000lbs thrust and BMW-

Rolls-Royce engines for execu-

tive aircraft and regional air-

liners, leading up to the collab-

Aero-Engines venture, whose

International

result of fierce struggles.

Much industry attention centres on the fierce commer cial battles being waged worldwide for orders for "highthrust" engines on the big commercial airliners such as the Airhus A-330/A-340, the Boeing 777 and the Douglas MD-II. But the aero-engine huilders are just as deeply involved in the growing volume of business to be won in the medium and low-thrust sectors of the market, especially for short-to-medium range regional-type airliners and executive aircraft.

IONDAY IUNE 12 1989

The world commercial engine husiness has suffered considerably as a result of the parlous financial state of the airlines through the recession. Between 1990 and 1993, the

world's airlines collectively lost some \$15.6bn, and only crept back into a small \$1.8bn profit in 1994 (much of which was contributed by a bare handful of airlines, including British Airways). Many airlines themselves have under-gone drastic restructuring. with severe labour lay-offs and cancellations and deferrals of aircraft orders.

The engine manufacturers have felt the effects of this. Dr Terence Harrison, chief executive of Rolls-Royce, said in the

Predicted eng	ine sales
	sales
A330/777 . NLA/VLCT/A3XX	3,000 1,500
Total	4,500

company's recent annual report that 1994 "was a lean year for orders in the commercial aero-engine market", adding however that "new ini-tiatives and joint ventures have opened up further opportunities and our engine development programmes, on which future prosperity depends.

have made excellent progress". In the high-thrust engine market every source of busi-ness, however small in volume, is hitterly contested because once an airline has selected an engine manufacturer to power his new aircraft fleet he stays with that engine for many years, generating a high vol-ume of business in spares.

The problem for the manufacturers is that with the leading airlines in financial straits. fewer orders are to be won in that expensive sector of the market. The hope, however, is that as airline profitability returns, so will the orders, although no-one expects any-thing like a return to sales of the late 1980s.

seen

Rolls-Royce foresees a total world market for jet engines and spares of all kinds of some \$200bn between 1994 and 2013,

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ADVERTISING

Engine deliveries Engine deliveries by value (5bn) Total 1994-2013 \$200bn

and it believes the potential husiness awaiting the high-thrust market in which its Trent family of engines is competing could amount to \$62bn,

the most valuable sector of all. So far in the hig-engine struggle in that sector against General Electric's GE-90 and Pratt & Whitney's PW-4000. both of the US, Rolls-Royce has done well.

The Trent 700, certificated at 72,000lbs thrust, has entered service on the Airhus A-330 with Cathay Pacific Airways. and has also been selected for A-330s by Garuda Indonesia, TWA of the US, Dragonair of Hong Kong, and International Lease Finance Corporation.

The more powerful Trent 800 has heaten both its rivals to certification at 90,000lbs thrust. It is now flying on the Boeing 777, is destined for service on 777s with Thai Airways in early 1996 and has been selected for 777s by Emirates (the Dubai flag airline), Cathay Pacific and Transhrasil. The Trent engine family has won about 40 per cent of the combined market A-330/Boeing 777

With derivatives of the 777 and A-330/A-340 airliners planned for the future to carry even heavier loads over longer distances, all three aero-engine builders are planning to boost the power of their engines

Rolls-Royce can push the Trent 800 further (it has already run on the test bed at 106,087lbs thrust) while General Electric is "working with Boeing and customers" on the possible development of 105,000lbs thrust version of the GE-90 (which has run on the test bed at 110,000lbs thrust), while Pratt & Whitney plans to upgrade the PW-4000.

But it is in the medium-tolow thrust engine markets that most business is materialising, and here Rolls-Royce is also doing well, although again

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V-2500 series powers narrowhody short- to medium-range airliners, including the Airbus A-319, A-320 and A-321, in addition to the Douglas MD-90 twin-engined airliner.

The Rolls-Royce RB-211-535 dominates the Boeing 757 airliner market, while the 60,000lbs-plus thrust RB-211-524 series is widely used in Boeing 747 and 767 airliners.

The aero-engine industry has not escaped the restructuring that has swept through the airline and airframe manufacturing industries in recent years. All the leading engine builders have either shut factories and other facilities or cut labour forces, or both, in bids to cut costs and remain competitive. with the extensive introduction of new computerised design, development and production techniques.

At the same time, joint ventures and company amalgamations bave been increasing, As in the airframe business international collaboration on specific projects has long been practiced as a means of spreading costs and risks.
The IAE ond BMW-Rolls-

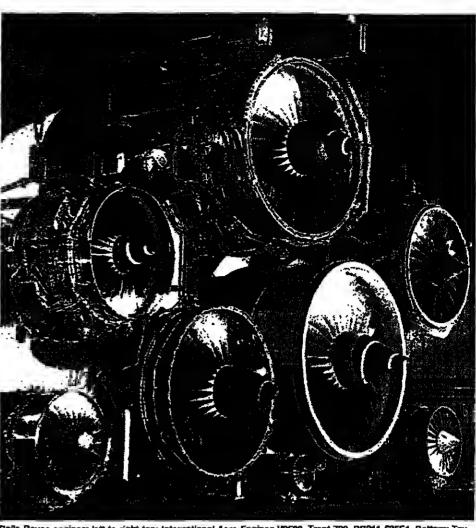
Royce ventures mentioned above are examples, while another is the joint venture between Snecma of France and GE of the US on the highly

But more far-reaching international company liaisons and groupings are emerging. Earlier this year Rolls-Royce pur-chased the US Allison Engine Company. The latter is a world leader in light helicopter and large military turbo-propeller engines, so is seen as an excellent strategic fit for Rolls-Royce, adding a complementary range of engines to the UK company's existing

Between them, Rolls-Royce and Allison have a total of

The hope lies in orders, although no-one expects a return to the sales of the late 1980s

more than 50,000 engines of various types in service, one of the largest fleets in the world. These trends seem likely to continue. While all of the "hig three" engine huilders are strong enough to continue individually in this highly competitive husiness, some of the smaller engine huilders may well seek llaisons or even another of the giants in order



RB211-524G, Williams-Rolls FJ44, Trent 200, BMW-Rolls-Royce BR710

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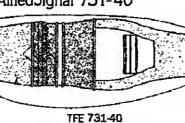
ing the external frontal drag. As a result, the SPX can fly non-stop* from New York City to Los Angeles at a speed of .82 mach.

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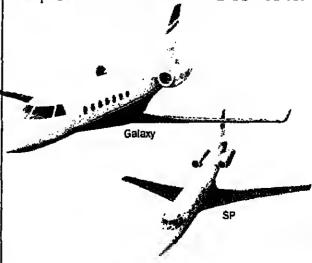
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Michael Donne analyses prospects for the development of giant aircraft

Challenges look severe

double to more than 2bn international passengers a year hy the early years of the next century and to continue growing thereafter, the question of how

Although the growth will be well spread over long, medium and sbort distances, a far greater proportion of it than in the long-haul arena, largely as a result of increasing demand for travel to, from and within the rapidly developing Asia-Paexpanding demand in the trans-Atlantic arena.

Some part of that long-haul demand is expected to be met by an eventual second-generation supersonic airliner, but the size of that aircraft's market is as yet uncertain, and it seems clear that the majority of long-haul passenger flights will remain subsonic for the foreseeable future.

One solution to the problem of traffic growth would be to huild ever-increasing numbers of existing jetliners or their (the biggest passenger airliner currently available, or Boeing 777s and Airbus A-330s and A-340s, and Douglas MD-11s. But that in turn would create greater pressures on the entire air transport infrastructure. especially creating congestion at airports and problems in air traffic control facilities to cope with crowded "corridors in the

While there will inevitably be more subsonic aircraft entering the fleets over the years ahead, it is being recognised that an increase in individual aircraft size, at least for

uncertain, but is generally thought likely to be around the turn of the century or in the early 2000s.

For that reason, both Boeing Commercial Airplane Group of the US and the European Airhus industrie consortium, are separately studying the possibilities of developing what are variously described as New Large Airplanes (NLAs) or Very Large Capacity Transports (VLCTs). At the same time, Boeing and the four indigronp - British Aerospace. Aérospatiale of France. Daimler-Benz Aerospace of Germany and CASA of Spain .

Boeing'a studies cover a possible 'stretched' version of its 400-plus seat 747-400 and an

entirely new aircraft with bigger payloads with Airbus itself in an advi-

sory role - are looking at the possibilities of collaboration. A ioint study is due to run until the middle of this year at and either extended or discon-Boeing's own studies cover both the possibility of develop-

ing a "stretched" version of its current 400-plus seat 747-400, to seat upwards of 550 passengers, and an entirely new aircraft with bigger payloads. The dilemma here is that any "stretched" aircraft would

require a new wing and involve beavy cost, but have a limited capacity for further long-term development. whereas any entirely new aircraft, while also expensive, long-term growth potential. No decision has yet been reached, and the studies are continuing.

Airbus, while planning derivatives of its A-330/A-340 family to cope with rising passenge numbers, has also unveiled plans for a new larger venture, the A-3XX, which could he offered in various configurations to seat between 530 and passengers, with a stretched version capable of up to 1,000 passengers, for example for a typical Japanese domestic operation.

involved in developing such VLCTs will be severe, especially in meeting possibly environmental requirements in the years ahead. To save weight, reduce fuel hurn and cut operating costs, new stronger, lighter materials will be needed, such as aluminium/glass-fibre laminated composites and aluminium-lithium alloys.

Much of the effort currently involved in defining the details of these projected aircraft is concentrated in such areas.

But just as significant are the financial and marketing challenges. The cost of developing just one VLCT type is between \$10bn and \$15bn. Such sums are beyond the purses of any single manufacturer, leading inevitably to collaborative ventures between companies to costs and bopefully widen the ultimate market. Whether that in turn means two competitive types, one in Europe and one in the US, or one global venture embracing all the leading

John Leahy, senior vice-president commercial for Airhus industrie, told an international

Conference in Montreal in late April that Airbus could foresee a market for any VLCT from entry into service around 2003. By the standards of current aircraft production runs, that was not a large number,

"The magnitude of the development cost and the resulting financial exposure during a long amortisation period has led some to believe there is no room for two competitors in this market, that only one worldwide consortium could any chance of profitability.

That is subject to some debate. The level of expected development cost certainly imposes consortium-type organisations hut, hecause development costs increase than with productlyity and price, it may be possible for two competitors to share the

But he added a note of caution: "It is not one, but two development programmea which would have to be covered hy 800 sales. Whether prices would go up because of this or down because of competition I cannot tell vet. This is one element in the ongoing solution for all of us."

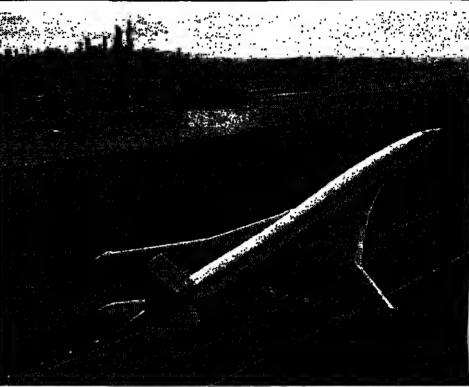
So far, only a few leading world airlines, including British Airways, have indicated interest in buying a fleet of NLAs/VLCTs. Mr Leahy, while expressing confidence in the long-term future for such aircraft, said that there were doubis about the prospects for an early launch of the A-3XX. He said that before launch-

Airbus's planned A-3XX could seat between 530 and 840 passengers, with a stretched version capable of up to 1,000 pas

of 40 aircraft from several carriers, and at least a similar number would be needed to launch the A-3XX.

"At the current phase of the airline husiness cycle, I doubt it would be possible to obtain the necessary number of launch orders - at least in today's economic climate," he

yourselves that you need this airplane and enough of you will have to step forward to bny it. Then, and only then, will this project become a real-



Artist's impression of a second-generation supersonic airliner; the size of this aircraft's market is uncertain

Concorde and its successor

much work anead

On both sides of the Atlantic. an increasing volume of on the feasibility of developing a second-generation supersonic airliner (5ST-2, or High-Speed Commercial Transport, HSCT) to replace the ageing Concorde in the early years of the next

In the US, a major programme is being conducted by the aerospace industry (involving airframe builders Boeing and McDonnell Douglas and engine builders General Electric and Pratt & Whitney and other aerospace companies), with financial and technological support from the government-sponsored National Aeronautics and Space Administration (Nasa) under what is called the second phase of the High Speed Research

programme (HSR-2). This is developing further tbe necessary "key enabling technologies" originally technologies" originally defined in the first phase (HSR-1, from 1989 to 1994). including work on new materials and new power-plants, as well as studying the environmental problems confronting such a venture and its global

market potential The US programme, which has not yet reached the stage of designing an aircraft in detail. centres around a 300passenger aircraft with three classes (first, husiness and economy) capable of flying at around Mach 2.4 over distances up to 5,000 nautical miles (Concorde currently flies at about Mach 2.2, carrying 100 passen-gers in one fare class over distances of 3,000 nautical miles). If all the technologies can be brought to fruition by the planned completion of HSR-2 in 2002, detailed design of a US SST-2/HSCT could begin then, with production starting around 2006 and deliveries to airlines around 2010. By then Concorde would have been in service for 34 years.

On this side of the Atlantic. a European Supersonic Research Programme (ESRP) has been established to bring together work already being done by British Aerospace through its subsidiary. British Aerospace Airhus, and by Aérospatiale of France and Deutsche Aerospace of Germany. This is focusing on an aircraft seating about 250 passengers in three fare classes and with a cruising speed of

As with the US programme,

this work is targeting the key technologies as well as serious environmental concerns over noise and pollutant emissions. and market potential. Here also, if the key technologies can be satisfactorily defined, a development programme could start around 2000, with a possihle entry-into-service hy around 2007, although financial constraints may delay such

Although there is still much work to do, the belief is growing that technologically a second-generation supersonic airliner will be feasible, but costly to develop (one estimate suggests about \$15bn).

target dates

A big question remains is over the size of the potential market, with some industry analysts suggesting it could

The danger of competition is in splitting a market of limited potential so that neither venture made any money

amount to anywhere between 500 and 1,000 aircraft over a period of 25 years, although others put the figure much lower. So far, few airlines appear to show any enthusiasm for such a venture. A joint International Work-

ing Group set up some time

ago by Boeing with US and

European companies has been looking closely into this aspect of any future SST-2/HSCT, although the group's work does not involve joint technology development. From those studies, the belief also appears to be growing that eventually, international collaboration on such a

venture will be necessary. involving US, European and other companies from countries such as Russia and Japan. The sheer cost involved would appear to preclude the possibility of two competing

types, one US and one European, even though each would have its own coterie of collaborators from other countries. The inherent danger of competition is in splitting a market of limited potential, so that nelther venture made any money - something no manufacturer could afford to risk. Louis Gallois, chairman of

Aérospatiale, is convinced that the market could sustain only one type, but he also makes the point that the US, with

government financial support. is further ahead in its research than Europe, and that in any collaboration the Europeans will have no real credibility unless their governments, either individually or jointly through the European Union, are also prepared to spend sums similar to those being

spent by the US. A brochure prepared by the ESRP in Europe states clearly that because of the magnitude of the investment involved, the market could only support one type of HSCT. It also makes the point that close co-operation between the certification authorities of the main manufacturing countries will be essential - in effect, that Europe would have to certifi-cate any US aircraft and the US certificate any European

This effectively means there is no sense in building two competing types where one will suffice, especially in the light of the co-operation, albeit limited, already taking place.

It is also stressed by both the US and Europe that in addition to having a reasonable market, any such aircraft must also be environmentally acceptable from the atart - and must

make money. Chris Longridge, vice-president for business strategy at Boeing, told the International Air Transport Association's High-Level Government/Airlines meeting in Montreal in late April that "the most important issue has to be the HSCT's economic viability. Any future supersonic airliner project must make money, both for the airline operators

and for the manufacturers". To be a financial success for the airlines, it would have to make a profit without having to rely on a high - if any - fare surcharge. For the manufacturers, it would have to be built in sufficient numbers to fully recome both development and ongoing production costs, while earning a reasonable

return on investment. The continuing challenge is thus to bring all these diverse threads together - technological, economic, environmental together with creating an adequate market and generating the political will to aupport such a venture financially. Much work bas been done, hut there is clearly much more still

Michael Donne

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Fokker expects to gain from its link to Daimler-Benz Aerospace, says Ronald van de Krol

Looking forward to the benefits

The dollar is a perennial and

serious worry for Fokker.

which is squeezed between

having to sell its aeroplanes in

dollars and incurring most of

its costs in European curren-

cies. One way to cope, Mr van

Schaik says, is "to increase

maker, is hoping to reap wideranging benefits from the alliances which its majority shareholder, Daimler-Benz Aerospace (Dasa), has concluded with Chinese and Korean aviation companies over the past

MONDAY JUNE 12 logs

One likely advantage of the agreements, which are ultimately aimed at developing a new regional jet for the 21st century, is the availability of lower-priced parts produced in Asia, helping Fokker in its long-running campaign to get

its costs down. But other benefits are also expected to accrue in future from the alliances, which call for the setting up of a threeway joint venture hetween tries of China and a number of Korean companies led by Samsung Aerospace Industries.

Ben van Schaik, chairman of Fokker's management hoard, said: "The partnership should also give us better access to Asian markets for aeroplane orders." North America and Europe currently lead the world in regional aircraft purchases, but Asia is expected to become a particularly important market for regional aircraft manufacturers such as Fokker in the 21st century.

Another advantage is the fact that Asian countries and companies are effectively within the dollar "zone", either hecause they use dollars in husiness or because their currencies are pegged to the dol-

co-operation with dollar-related Fokker, which came under Dasa's control in 1993, is unperturbed by its parent company's forays into Asia, Nor role if Dasa

seat range.

manages to The continued losses conclude some have prompted sort of partner far-reaching the new Eurorestructuring at Fokker pean regional

concessions Fokker might ance formed by British Aero-space and ATR, which is make on the Fokker 50 or other issues, says "everything is open for discussion". jointly owned by Aerospatiale of France and Alenia of Italy. He says the flurry of alli-In the difficult negotiations that led up to Dasa's purchase

ances is expected to lead "to two groups of partners, a Euroof a controlling stake in Fokpean group and an Asian ker from the Dutch governgroup, which will co-operate ment, it was agreed that the intensively hut retain their Dutch company would be the ceotre within Dasa for the independence." The European and Asian groups would each design and development of have their own final assembly regional jets in the 65 to 130lines, but plane parts could be supplied from either side to the Mr van Schark says that it is logical, given the overcrowded

The takeover by Dasa in 1993 market and the sheer expense has brought financial resuscitation for Fokker hut no of developing new aeroplanes, that the German, British, respite from the difficult condi-French, Italian and Dutch tions prevailing on the market

manufacturers of regional air

craft come to an agreement

We are, in a manner of speak-

If we don't allow ourselves to

be led by emotion, we should

be able to come to a proper

A frequently-cited stumbling

block to a European regional

aircraft alliance similar to Air-

hus is the existence of compet-

ing aeroplanes within the

mooted grouping, particularly the Fokker 50, a turboprop,

part the ATR 42. Mr van

Schaik, who

will not he

drawn on what

for new aeroplanes. These difficulties are also faced by other manufacturers, but this is scant consolation for Fokker. which ran up combined losses of more than Fly00m (\$560m) in 1993 and 1994. The continued losses have prompted far-reaching restructuring at Fokker, and the elimination of thousands of johs so far in the

In 1994 Dasa pumped Fl 600m of capital into Fokker, which also raised a further Fl 400m from a sale-and-lease-back deal of its technology with Rabohank, the Dutch co-operative bank. Mr van Schaik acknowledges that some sort of financial assistance may be needed again in 1995 or 1996, but he also believes that overall prosoperated by Avianova, a Rome

In 1996 we expect to be out of the red, assuming a stable dollar of FI 1.70 to FI 1.75," he said, in early 1995 the dollar has been as low as Fl 1.53 and is currently around Fl 1.60. Mr van Schaik added that the level of "serious interest" among potential aircraft purchasers is on the rise, holding out hopes of a recovery in the

At the end of April, Alitalia, the Italian carrier, agreed to lease 15 Fokker 70s. the latest addition to Fokker's Jetline

pects are improving.

"family". The aeroplanes, costing roughly \$25m each, will he based regional carrier which is majority owned by Alitalia.

It is a sign of the times that Alitalia wanted to lease the aeroplanes rather than huy them outright. This increased trend towards leasing is straining Fokker's balance sheet, and the company is working on setting up a separate leasing company that would take over these leasing contracts and operate at arm's length from Fokker itself. Talks on creating a leasing company for Fokker are con-

tinuing with Debis, the ser-

vices arm of the Daimler-Benz

Originally, Fokker had hoped to have leasing company up and running by the end of the second quarter. But a difference of opinion with Debis on the value of Fokker's current portfolio of leasing contracts the company ours this at about Fl 1bn, although Debis believes the true value is lower - has caused a delay.

Mr van Schaik says he expects the leasing company deal to he concluded in the second half of this year. "I wouldn't want to have to push back our target date again, I hate doing that." he says.

profit margins are still thin Not yet out of

the woods

Although improving, global airline

In late April, the world's such as travel agents' commisairlines celebrated their first collective profit in five years. A week later, they were warned they were slipping hack to

their old loss-making ways. The world airlines' aggregate net profit of \$1.8bn in 1994 was a welcome relief after several years of losses. But the International Air Transport Association, which announced the figures, pointed out that airline profit margins were still thin.

Pierre Jeanniot, lata's director general, said the net profit figure, which is for international scheduled services, represented a mere 1.6 per cent of revenues. Mr Jeanniot said a healthy profit margin would be 7 per cent.

He said: "There is still a long way to go to secure decent future profitability."
The \$1.8bn profit compared

with a \$4.1bn collective loss for lata airlines in 1993. From 1990 to 1993, the airlines' aggregate loss was \$15.6bm. This year, lata expects the

collective net Even this, however, will be only 4.5 per cent of revebelow the 7 per cent lata 💳

regards as healthy Mr Jeanniot said that this increase would be threatened if airlines increased the number of seats on sale too quickly. lata's data for the first quarter of this year suggested this

might already be happening. The association said airline capacity, as measured by available seat kilometres, increased hy 6 per cent in the first three months of this year. Passenger traffic rose hy the same amount. During March. airline capacity grew 5 per cent. Passenger traffic in March rose hy

only 4 per cent. This might not he the beginning of the unhealthy trend of which Mr Jeanniot warned. Easter, when many holidaymakers travel, did not fall in the first quarter this year, whereas it did last year. Passenger numbers worldwide might recover to outpace seat capacity over the rest of the

The lata first quarter figures do compare unfavourably with the whole of 1994, when traffic rose more quickly than seat capacity. Nevertheless, some analysts are optimistic that airline companies might be able to sustain a relatively health profit performance.

One reason for optimism is bad news for the aircraft manufacturing industry and its employees. Unlike during previous economic recoveries, airlines are not rushing to order new aircraft.

This was one of the factors behind the announcement earlier this year by Boeing of the US, the world's biggest aircraft manufacturer, that it was making 12,000 employees redun-

Frank Shrontz, Boeing chairman, said: "Since the heginning of the year, several customers came to us asking to postpone airplane deliveries because of the continued softness of the industry."

Jean Pierson, managing director, of Airhus, the European consortium which is the second higgest manufacturer, said he felt many airlines were holding on to their existing aircraft for longer periods, rather than buying new ones.

Brian Harris, an analyst at S.G. Warburg, says a second reason to believe airlines are in a position to improve profits, at least in the US, is a cut in their distribution costs. He says distribution expenses,

sions, computer reservation systems fees and ticket processing costs, are airlines' second higgest cost component

after wages. Airlines are pushing abead with ticketless travel. They have also acted to cut travel agents' commissions. The move was initiated last Fehruary hy Delta Air Lines, which said it was capping the amount of money it paid travel agents who sold its tickets.

The airline said it would contimue to pay a 10 per cent commission, hut only up to a maximum of \$25 for a domestic one-way ticket costing more than \$250. There would be a cap of \$50 for a round-trip domestic ticket costing more than \$500, Delta said. In spite of the outcry from travel agents, the other large US carriers soon said they would do

Whether the cap will benefit consumers is another matter: some travel agents say that, if airlines to do even hetter than the airlines continue to cap commissions.

they will have hnt to hegin ahead with ticketless travel. They have also travellers who acted to cut travel want to huv tickets. agents' commissions

Another development which the airlines hone will improve profitability is the forming of alliances and codesharing agreements. Some of these alliances have taken the form of equity investments. such as British Airways' stakes in USAir and Qantas of Australia. Swissair has also acquired a 49.5 per cent stake in Sabena, the Belgian state-owned car-

Other alliances, such as that between Scandinavian Airlines System and Lufthansa of Germany, announced in May, do not entail any equity investment hut do involve close co-operation and co-ordination of routes.

Other tie-ups hetween airlines have been simple codesharing arrangements. This is when an airline does not fly on a particular route, but markets own. A recent arrangement of this sort, announced earlier this year, was that hetween Delta and Virgin Atlantic, the UK airline owned hy Richard Branson.

Under the agreement, Delta will sell its customers seats on Virgin's flights from the US to Heathrow airport. Delta has not been able to win the right to fly to Heathrow itself. Virgin can offer the passengers it flies to the US onward journeys elsewhere in America on Delta flights.

Some believe these arrangements are not in the interests of consumers. Robert Crandall, chairman of American Airlines, says: "Code-sharing is profoundly uncompetitive and. in the long term, will mevitahly reduce the number of air carriers competing for your husiness. When airlines team up and code-share, they are able - hy means of pretending to be a single carrier - to force other carriers out of a market." As few other airlines appear to share Mr Crandall's views,

share deals too. Code-sharing provides airlines with a low-cost way of expanding their ronte networks. It is too early to say whether all the agreements will result in increased profits for the airlines. BA, however, has little doubt. It expects the henefits from its tie-up with USAir to yield henefits of

however, he has decided that

the US should conclude code-

Michael Skapinker



Airbus Industrie is now the world's fastest growing civil aircraft manufacturer, delivering a third of all large airliners, and presenting a serious challenge to the US perospace monopoly. Some 1850 Airbus airliners have been sold to over 120 airlines worldwide.

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which provides the airliner's highly advanced wings and fuel system, it is making a significant contribution to Britain's economy, not only repaying Government loans with interest but also generating welcome profits.

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manufacturing exports and contribute £1 billion to the UK's annual trade balance.

The Airbus business is going from strength to strength. With seven state-of-the-art airliners now in production, and forward orders worth \$52 hillion, Britain is positioned to gain well into the next century.

Airbus is probably the Treasury's favourite



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ben Shandong Airlines, one of China's fast-developing new regional airlines, agreed last month to purchase three Boeing 737-300 passenger planes it marked yet another successful foray into the Chinese market

for the US company. Since China acquired 10 Boeing 707s in the early 1970s, the US aerospace giant has dominated the local market. Of China's 400 commercial aircraft in service today. 200 are Boeings.

But Boeing is not having it all its own way. Both Airbus Industrie, the European manufacturing consortium, and McDonnell Douglas are striving to increase their share in what is proving a highly competitive market.

Last November, McDonnell Douglas announced that it had reached agreement on the supply of 40 commercial jetliners to China at a cost of \$1.6hn. Half of these aircraft would be produced under joint venture arrangements in Chinese facto-

Airhus Industrie has also heen making a determined push. Jean Pierson, managing director of Airbus, has visited China several times in the past six months on high-profile selling missions.

Last November be said that Airbus' aim was to increase its share from about a third of new sales to half.

Enthusiasm for the China market among aircraft manufacturers is being driven by astounding growth projections: and this at a time when the international market for aircraft is relatively flat.

the Civil Aviation Administra-

China's rapid growth is attracting the attention of foreign companies

Magnet for the multinationals

judging by growth-rates during

the past 15 years since China

began opening its economy to the outside world. From 1980 to

1994, aviation growth was 2.2

times that of the national econ-

omy; total transport turnover

and passenger volume was 4.3 times and 6 times the average

of international civil aviation;

and China moved from 33rd to

8th internationally for passen-

outlined hy international air-

line companies. Airbus, for

example, expects China to pur-

chase 620 aircraft in the next

15 years at a cost of about

\$30hn. Boeing is somewhat

more amhltious, predicting

sales of 800 aircraft at a cost of

It is little wonder, therefore,

that senior airline executives

constantly beat a path to Chi-

na's door. Among more fre-

quent visitors is Ronald Woo-

dard, president of Boeing

Commercial Airplane Group

who made no secret during a

recent visit of the importance

hina's own growth pro-

jections are more or

less in line with those

gers carried

na's aviation industry watchdog - told a recent business conference in Beijing that by the year 2000 China would increase numbers of commercial aircraft by about 320 to 1.000 (this includes both passenger and cargo planes). China plans to boost its car-

go-carrying capacity in line with its fast-growing economy by adding 260 cargo carriers in the next five years. It is also embarking on the rapid development of its airport network to accommodate a broader range of aircraft, including Boeing 747s and 737s.

Of China's 132 airports, 13 are capable of handling 747s, 70 can cope with 737s and about 40 are either being upgraded, or there are plans to do so. China plans to develop 40 international airports by the year 2010. No less impressive are Chi-

na's operational targets: it aims to double transport turnover and rank in the top 10 by 2000 (in 1994 it ranked 11th with 5.94bn tons/km), increase passengers numbers by an average of 12 per cent each year to 80m and raise airport handling capacity to 150m

exported some \$7bn worth of aeroplanes to China. Between 1993 and the end of 1995 Boeing will have delivered more than 100 commercial jets to China, about 14 per cent of total pro duction.

The US company is also seeking to consolidate its presence on the ground in China as part of attempts to preserve its dominant position in the market. To this end, it is developand is also extending arrange ments for the production of Boeing components at Chinese factories, including the aft section for the 737.

Boeing is also involved in discussions with China and other regional partners on the production of a 100-seat commuter aircraft. This would be manufactured in China as a means of transferring technology and aircraft production

Mr Woodard, in his remarks to an international husiness symposium last month, also made it clear that his company was pinning great hopes on China providing a substantial market for the new generation Boeing 777s which are just coming into service. China Southern, the Guangzhoubased carrier, will become one of the world's first airlines to receive a 777 when it takes delivery in November.

Boeing executives helieve the twin-engined wide-bodied 777 with capacity for 300-400 passengers is ideally-suited to China's domestic and international requirements. Representatives of Airbus Industrie and McDonneli Douglas have other

apan's Ministry of International Trade and Industry (Miti) has U become almost a synonym for success in the lexicon of industrial policy. Few of Japan'a manufacturing giants do not owe their strength, in one way or another, to the inflnence of this mighty industrial machine. Even today as Miti's role changes from a dirigiste to a more facilitator, the part it has played in nurturing Japanese industry is not disputed.

Yet in one crucial area of policy Miti has signally failed to produce a worldbeating Japanese husiness: aerospace. Despite repeated attempts in the past 50 years to recreate a worthy Japanese aerospace successor to the pre-war giants, the industry remains a minnow in the world of Japanese manufacturing.

It is not all Miti's fault, of course. Japan'a militarist past and its pacifist present have not been conducive to the construction of an aerospace sector from its post-1945 ruins.

That constitutional legacy has left the principal Japanese aircraft demand to be met by its security ally, the US. Its military aircraft have all been either US imports or Japanese versions of US mod-

els produced under licence. In addition, since the civil airline industry is so dependent on the military, that has left even Japan's ecormous commercial airline demand - in Japan Airlines and All Nippon Airways It now has two of the world's largest fleets of planes - to be satisfied from overseas.

Several times in the past 30 years, Miti has tried to change that. First with the YS11 60-seat twin-engined turboprop in 1962 a disastrons project that sold just 182 aircraft in 10 years and collapsed in a pile of bad debts and worse recrimina-

Then came a short-take off and landing model called the Asuka, whose financial take off was very short and the landing even harder.

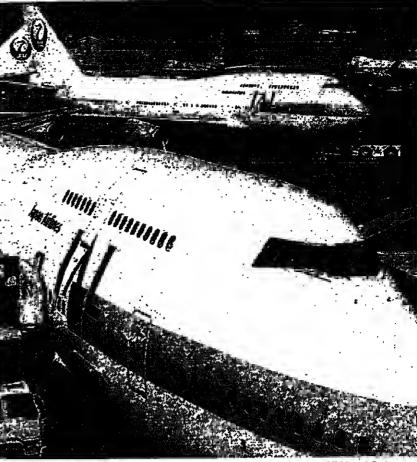
Neither aircraft was able to overcome customers' reluctance to buy something from the untried and untested Japanese aerospace companies - Mitsubishi, Kawasaki, and Fuji being the largest among

The failures convinced Miti that Japanese technological prowess would have to be harnessed to foreign commercial and manufacturing experience if the country was ever to build a genuine aerospace

Over the next few years a series of contracts were struck with Boeing that guaranteed a role, albeit a secondary one for the big Japanese manufacturers. The Japanese signed contracts to produce components amounting to 15 per cent of the Boeing 767 and 21 per cent of the 777.

But although these contracts represented significant financial bonuses for the aerospace companies, they attracted widespread criticism that Japan was becoming little more than a nuts and bolts subcontractor for the US aircraft

Parts made for Boeings are mostly at the wrong end of the technological spectrum - wing tips and fuselage parts Tony Walker rather than avionics.



Japanese operated but US built Boeing jumbo jets at Tokyo's Narita airport: Miti has failed to

Gerard Baker on the Japanese industry

High hopes fading

Critics of the government's approach said the contracts were doing nothing to create a strategically important business.

Mitt is now trying again, launching what looks like being the ultimate chal-lenge. It is called the YSX - a 100-seat passenger jet commercial aircraft - and it is scheduled to go into production next year. Although it is also a collaborative exercise with Boeing, it was intended principally as a Japanese plane, with Jap-anese technology and knnw-how, spiced with US marketing skill.

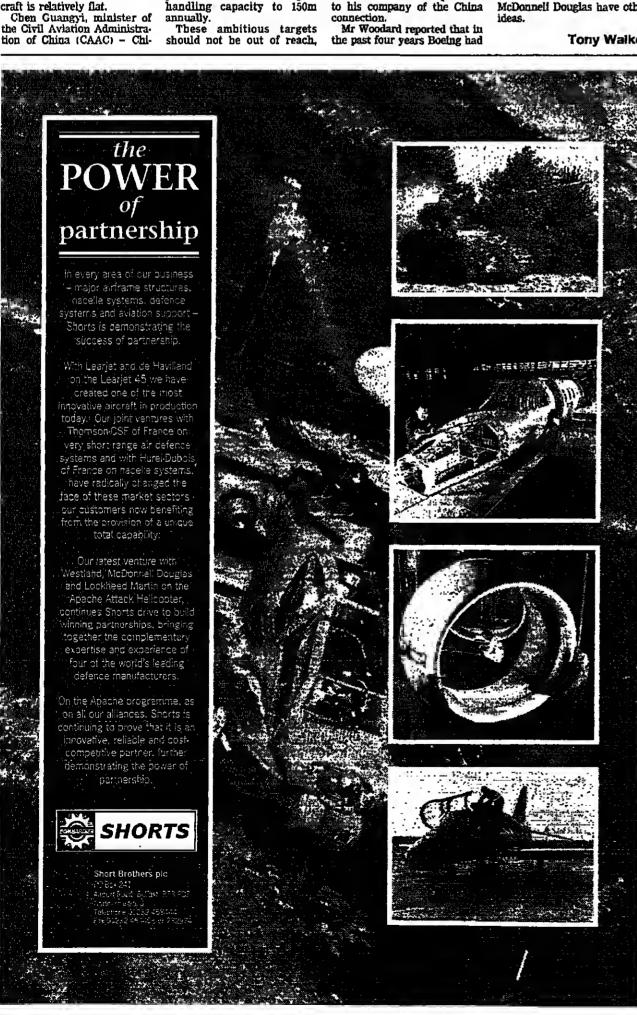
Bnt, despite their involvement, the enthusiasm of the manufacturers for the project has seemed less marked than Miti's. In April the first real doubts began to appear. The hig Japanese manufacturers announced that they had signed a deal with Boeing to produce parts for the new version of the company's long-running success, the 737. One of the new 737 versions will compete directly with the planned YSX, and the Japanese manufacturers' willingness to contribute to it seems to suggest that YSX itself may never get off the drawing board.

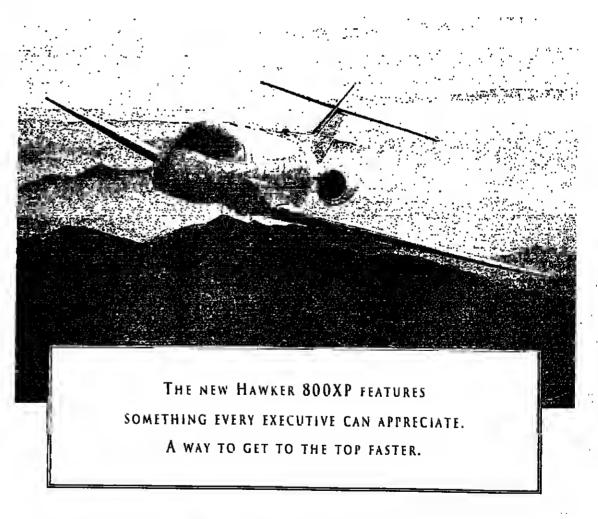
If that is the case then the project may quash Japan's hopes of an independent erospace industry.

Miti had invested such hopes in the YSX because it offered the opportunity to wean the industry off its reliance on defence projects in the rapidly demilitarising post-Cold War world.

Here, too, the leading companies have been little more than US-directed subcontractors. Even a much vaunted new project, the FSX, whose prototype was unveiled earlier this year, is simply another aircraft modelled on a US product the F-16 fighter. Although it is scheduled to begin testing later this year, there is little prospect of it developing a substantial order book from the shrinking Japanese military and it, too, may prove short-lived.

The next few months will be critical for both projects. Should the YSX be abandoned and the FSX become little more than a high-tech museum piece, the last bopes for a self-sustaining Japanese aerospace business may well disappear with





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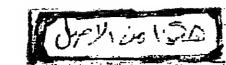
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Germany

Rise of the D-mark still causing pain

A handful of German jobs in their constituencies. ministers, the premiers of several Länder and representatives of the aerospace industry recently gathered for the latest - and higgest ever - round in their battle to decide the fature of the German zerospace industry.

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Government and industry representatives who filed into economics ministry on a hillside above Bonn were not short of arguments with which they hoped to fight their own

Daimler-Benz Aerospace (Dasa), the subsidiary of German's largest company which represents 80 per cent of the country's aerospace industry, led the industrial lobby which ls demanding more govern-ment support in the face of fierce International competiting, especially from the US.

The government, on the other hand, came without any extra money but with equally well-rehearsed argument

In effect it told German industry it should nn longer be looking to Bonn for help but shanld instead wark mare closely with Brussels to co-ordinate a European aerospace strategy and, most importantly, that aerospace compa-nies in Germany, France and Britain have to make tough decisions about who is to do what in future.

The aerospace confarence, including for the first time the state premiers of six German Lander or states where the aerospace industry is sited, comes as German aerospace companies are again howling with pain as the dollar, the currency in which most aerospace business is done, continnes to slide against the

D-Mark. Norbert Lammert, the state secretary in the economics ministry who is also the government's co-ordinator for the aerospace industry, says be is aware of the problems caused by currency turbulence.

But he says the problem is not new and he refuses to find extra public money to help industry tackle it, especially as the two sides last year both contributed to a DM1.2bn programme designed to support the German aerospace indus-try between 1995-1998.

We cannot begin a rollback of what has been agreed with every single nld or new prohlem." Mr Lammert said recently.
Industry will nonetheless do

all it can to squeeze more money out of the government and hopes to enlist the support of the Länder premiers who are concerned to maintain the

Jürgen Schrempp, Dasa's chlef executive since 1989 until he took over at the belm nf Daimler-Benz, recently warned that up to 20,000 German aerospace jobs might be lost if the dullar continued to be worth less than DM 1.40, the level to which it recently tum-

Mr Lammert insists that the government is doing what it can. The industry is tha only one, he says, for which Bonn has for years had a a co-ordinator whose task it is to ensure that aerospace concerns are familiar to the country's top

The DM1.2bn programme is designed to safeguard areas where German Industry

German industry acknowledges that if Europe is to have any chance against the US it must create a European procurement policy

already has considerable expertise: navigational systems, engines and belicopters. Ahont DM120m is reserved to fund innovative projects proposed by some of the smaller aerospace compa-

Mr Lammert wants to persuade German industry that more than ever, its future depends on European co-opera-

"The technological and commercial conditions in aerospace industries have reached point where national projects - in so far as they can be financed at all - are increas-ingly irrelevant," he said. The aerospace industry will be European or not at all." While Dasa and others have

often blamed the government for not doing more to consolidate the European aerospace industry, Mr Lammert insists that industry itself has done too little to restructure the European industry so that it can compete with the US. Russia and a bandful of Asian countries with aerospace

Mr Lammert says it makes no sense for both Dasa and ATR, the Franco-Italian consortium, to be working on the development of a new 100-seater jet. Such efforts should be united, he says, and should perhaps be extended to include the Swedes or the Koreans.

More must be done to ensure that existing ventures such as Airbus are turned into public companies so that costs can be better controlled, Mr Lammert

says, and Franco-German plans to develop a new generation of reconnaissance satellites must be given further political support

These and ntber projects were discussed at a January meeting of tha German, French and British trade minsters to formulate aerospace policy which, Mr Lammert said, was long overdne. He bopes there will be another meeting before the end of the year which will give further impetus to European co-opera-

German Industry, on tha other hand, acknowledges that if Europe is to bave any chance against the US it must create a European procurement policy through which it will be able to award the lucrative contracts which have so far given US companies the decisive advantage over their

The Germans and the French are finalising plans for a joint procurement agency which would begin by awarding contracts for conventional weaponry such as armoured personnel carriers and hope that other projects will follow. However, according to Wolf-

gang Piller, Dasa's finance director and the chairman of the BDLI aerospace association, the state of the German industry is dire because several procurement budgets have been cut by about 50 per cent since 1990 and European solutions have become more difficult because of a similar short-

The budget for the European Space Agency (ESA) between 1992-2000, for instance, was set at DM19.5bn in 1987. It has since been whittled down to DM9.9hn and may still be reduced even further, Mr

A series of European projects are under way including Eurofighter, the four nation £32hn effort to develop the next generation of fighter aircraft. But other projects which Germany regards as critical for Europe's chances to compete with the US are having trouble getting started.

Future Large Aircraft, a Franco-German initiative to Which Britain, to the horror of the German aerospace industry, has not yet fully committed

"If Britain does not join the FLA programme," said one aerospace executive, "then I am in favour of blowing up the Channel tunnel and letting it drift nff into the Atlantic."

Michael Lindemann

AEROSPACE 7

The decline of the dollar is hurting French aerospace companies, says David Buchan

Industry continues to downsize

Muttering hitterly about the dollar's decline and unfair US competition in world markets, the captains of French aeropace continue to retrench. But the retreat may only he tactical. A leaner, meaner French industry is hoping to counter-

attack in the years to come. This year, however, will still see a fall in French aerospace sales. The Groupement des tiques et Spatiales (Gifas) predicts, on the hasis of orders over the past three years, that its member companies' turnover will decline by 2 per cent to FFr103bn (\$20.27). This follows falls in total turnover of 3.5 and 8.9 per cent in 1994 and

1993, respectively.

As a result of the well-publicised difficulties of French airlines and the country's equally intractable hudget deficit, French aerospace manufacturers had to look more to foreign customers who took 55 per cent of their sales last year. France's aerospace industry, the world's second largest with 9 per cent of the global market and 35 per cent of Europe's production, saw export deliv-eries rise a modest 1.6 per cent and export orders increase by 7.1 per cent.

But French aerospace export ers are deeply worried and angry, about the effect of the dollar's decline. "We are dead if the dollar were to stay at below FFr5," says Louis Gallois, president of Aérospatiale Aérospatiale's costs, he points

out, are 75 per cent in francs or other relatively hard currencles, but its sales are 75 per cent in dollars.

Alain Gomez, president of Thomson-CSF, the defence electronics group, likens the US defence industry's export offensive in the 1990s to that waged by the Japanese consumer electronics industry in the 1980s. The basis of both is a competitive advantage that rests on a closed home market and an undervalued currency, Mr Gomez claims.

Serge Dassault, president of Gifas and of the company that bears his name, complains that "the Americans have no interest in propping up the dollar hecause it benefits their exports". He would like to see France adopt the sort of exchange stabilisation scheme which Germany operated for Deutsche Airbus and Which so irritated the US. His idea is that the French governme would fix a rate of, say, FFr6 to the dollar. If French aerospace exporters received more than this rate on their dollar sales, they would pay into a fund and draw out of that fund if they received less than that rate. What he and other French

industrialists also point to is the way US administrations have stepped up their lobbying on behalf of American aerospace companies. Mr Dassault expresses the hope that President Jacques Chirac will go into but for French arms sales in the way that President Clin-



ton has for similar US sales; given that Mr Chirac's father worked for Dassault, there is every chance he will.

In the meantime, however, French aerospace is having to downsize. The industry shed 6,000 jobs in 1993 and another 5,000 last year to reach its current size of 100,500, with a considerable amount of short-time working among those left in formal emoloyment

The worst hit company has prohably been Snecma, the aero-engine maker. Its turnover has shrunk by 30 per cent over the past three years, because, unlike the makers of aircraft, missiles and avionic equipment, Snecma has seen both its export and home mar-

further 500 jobs this year, but lts new president, Bernard Dufour, reckons that in terms of sales-per-worker his 12,000 workforce is still about a quarter too large.

At the same time. Snecma has a heavy development programme. It has just been given the go-head, but not yet the money, from the French government to start work on the CFM XX engine which, with some 40-50,000lhs thrust, would complement the range of its successful, smaller CFM 56 engine and the bigger GE 90 engine built in conjunction with General Electric of the US. But after an accumulated FFr3.4bn loss over the past three years, and the prospect of being about FFribn in the red again this year. Snecma badly needs more money, perhaps as much as FFr6bn, from

its state shareholder. The needs of other stateowned aerospace and defence companies are not so dire. But Mr Gallois says Aérospatiale needs another FFr10bn to hring its funds up to a third of its FFr50hn a year turnover, if it is safely join other European companies in expanding the Airbus programme,

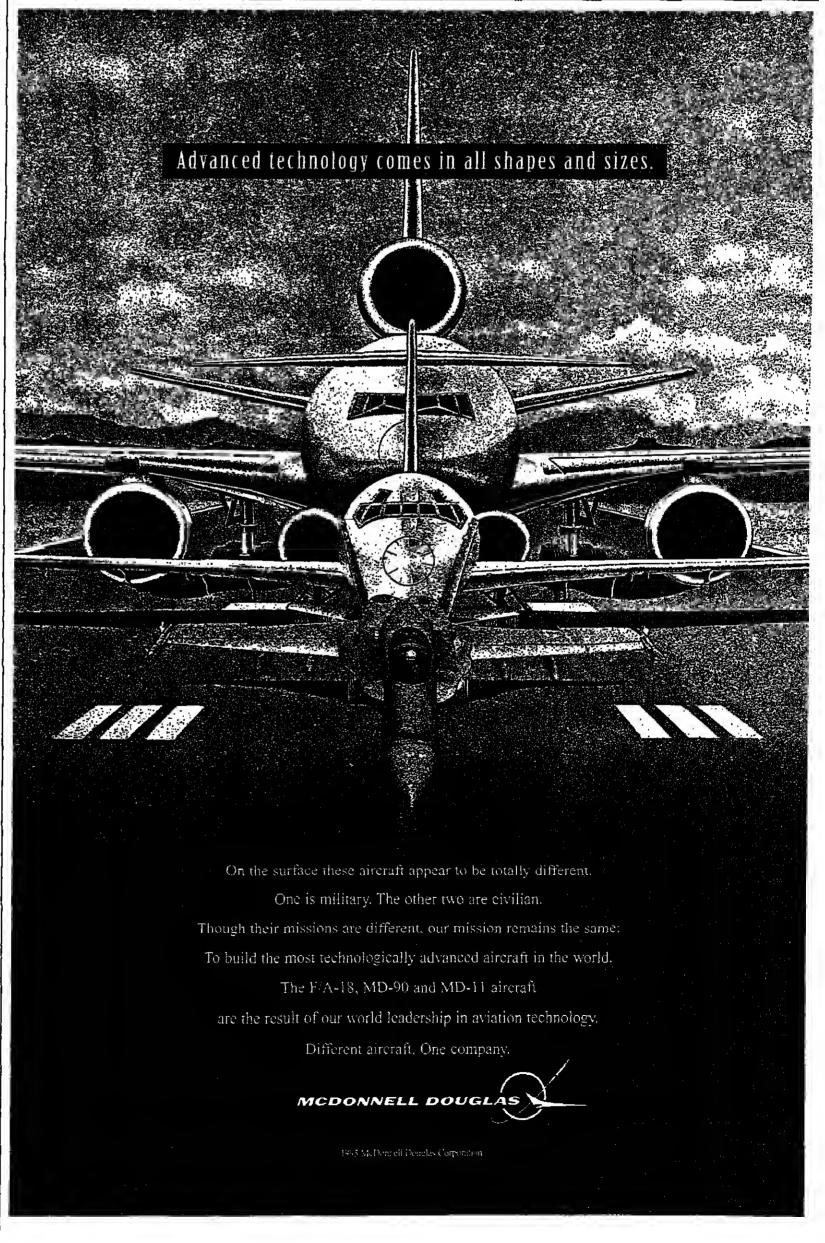
Thomson-CSF's only real problem is its loss-making share in Crédit Lyonnais, but Thomson SA, the state holding company which controls it, also needs a cash injection from the government.

But the French state has no

pressing its military suppliers to cut their prices by 2 per cent price and refusing to place multi-year orders in a way that has infuriated Mr Dassault. He complains that because the government is only ordering about 5-6 Rafale jets from Dassault each year, neither his company nor its subcontrac-

tors can properly plan abead. In this context, much of the French aerospace industry is seeking strength in alliance with other European companies. This is not proving easy. Aerospatiale has virtually negotiated its missiles and satellites joint ventures with Daimler-Benz Aerospace (Dasa), but is waiting for German government funding for new satellite programmes. Similarly, the Matra defence division of the Lagardère group has more or less negotiated its missile merger with British Aerospace, but the deal appears to bang on the UK government giving the couple dowry in the form of a new missile programme.

Only Mr Dassault stands proudly resistant to this urge to merge. "A small company can be more efficient than a large one". he says, adding that be has no plans to diversify or ally his group with another. If the state wants him to co-operate more with Aéros-patiale, Mr Dassault says, it will have to fork out the joint research funding it has long promised the two companies.



Russia

Signs of change

Russia has a long and proud tradition in the aerospace industry but the economic slump which has plagued the country for the past five years has at times seemingly threatened its very existence.

An inter-enterprise debt crisis, which has delayed hill payments throughout the economy, has starved many manufacturers of working capital while orders for new aircraft have plummeted. The privatisation of Russia's

biggest manufacturers has also cut them off from state funds without giving them access to new sources of capital. Rampant inflation has deterred companies from making the long-term investments essential for the survival of a competitive industry.
But as the economy stabl-

lises and Russia's domestic carriers gather strength there are some signs that the aerospace industry is beginning to adapt its production-led mentality towards one of satisfying potential customers' needs. Spurred on by co-operative ventures with foreign firms, Russian manufacturers are slowly starting to shift the emphasis from the giant, ineffi-ciant aircraft it produced in such quantity in the Soviet era towards more consumerfriendly aeroplanes demanded by the new generation of transport companies.

The trend will be visible at the Paris Air Show this week where Russian manufacturers will concentrate on selling smaller aircraft, exhibiting 20 helicopters and aeroplanes. The time when we demonstrated the achievements of the former Soviet Union is over. Aircraft makers now have a interest in producing small commercial aircraft which can be sold quickly," Andrei Systsov, the deputy director of Russia's aircraft export company,

Tha Mikoyan design enter-

tions of high-specification fighters, will show the MiG-AT advanced trainer developed in co-operation with Sextant Avionique and Turbomeca of France. Great hopes are held out for this new aircraft, which has still to complete all its flight tests, and Mikoyan aims to sell 3,000 of these trainers over the next 15 years.

Another trainer, the Yak-130, which simulates the performance of Russia's advanced fighters will also be on show. The Yakovlev enterprise which

The industry is beginning to alter its manufacturing methods

makes the trainer says it has already received orders for 200 aeroplanes from the Russian air force and would start production in 1997.

Russian manufacturers will also try to reinforce their reputation as a leading force in the military aircraft market. Foreign air forces are expected to show considerable interest in two aircraft which will be displayed at Paris far the first time - tha MiG-21-93, which boasts a sophisticated computerised weapons system, and the Tupolev Tu-160 homber which is capable of launching small satellites.

After decades of wasteful central planning, the Russian government is perhaps under-standably reluctant to heed the aerospace industry's pleas and implement a new industrial policy. Nevertheless, there are at least some tentative signs that the industry is beginning to alter its manufacturing methods and make the long painful march towards the market economy.

The most startling transformation has perhaps been wrought at Aviacor, the Samara-based manufacturer of the

implemented a drastic restructuring programme after bankruptcy procedures were started last year. The workforce has been cut from 25,000 to 9,000, tha company's social infrastructure - including schools and holiday homes - has been transferred to the local authorities, and the production processes are heginning to be modernised.

Such manufacturers may yet be able to satisfy the poten-tially huge demand in Russia's airline market where it has been estimated that only 30 per cent of the aircraft operating in Russia today will still be operational by the end of the century. Tha comparatively low-cost structure of the Russian industry may also make its aircraft particularly compet-itive in promising emerging markets, such as China and

Aeroflot-Russian Interna-tional Airlines, which carried 8.1m people last year, says that enger demand has already begun to stabilise and it is beginning to plan ahead with more confidence. This year it intends to buy two 11-96-300 aircraft and refit 14 II-86 aeroplanes with western engines at a cost of \$288m. But it is also installing Russian-made engines on its II-76 cargo planes and will order 20 II-96Ms and Il-96T aircraft.

But the new generation of Russian airliners has encountered some teething problems. Last November, a Tu-204 aircraft on a demonstration flight for industry journalists, was forced to make an emergency landing after one of its two Russian-made engines failed. Both the Tu-204 and the Il-96-300, on which the future of the Russian aviation industry largaly hangs, were to have used the flawed PS-90A

John Thornhill

The UK is taking steps to halt falling market share, says Michael Donne

Boosting competitiveness

the UK's most successful industries, with a positive trade balance for many years, there is concern that while it continues to achieve sales of about £11bn a year, its position in an expanding global aerospace market is declining.

The US remains the western world leader, but the UK, compared with a slight lead in the early 1980s is now smaller than France, with Germany catching up relentlessly, and new competitors, especially in Asia-Pacific, also taking a share of the market.

To meet this challenge, the industry over recent months has been seeking not only to improve its own performance but also to enhance UK government awareness of the industry's extensive role in the nation's economic life and to improve government procurement policies.

The industry believes that UK lacks a coherent national strategy for aero-

in the five years to 1994 -

more than all the profits they

had previously made since the

invention of powered flight they look as though they are

going to make a profit this

year. Airline stocks have risen

sharply amid an npsurge of

optimism about the industry's

Bnt is the optimism

well-founded? There is room

for donht. As with airlines

elsewhere in the world. IIS

carriers have beoefited from

bers prompted by economic

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economic bnoyancy, the Air

Transport Association, a US

body representing the airlines.

believes the industry will

make net profits of ooly \$500m

this year, a long way short of

an upsurge in passenger num-

ontlook.

t last, things seem to be looking up for US air-lines. After losing \$13bn space, in which the govern-ment must have a leading role as the industry's biggest single

Internally, the industry, through its trade association. the Society of British Aerospace Companies, has estab-lished what it calls "The Competitiveness Challenge".

This a strategy initiative

A strategy initiative has been designed to make the industry aware of the challenges it faces in increasingly competitive markets

that is designed to make the industry aware of the challenges it faces in rapidly expanding and increasingly competitive world markets. and to help it gear itself up to meeting them, with the overall objective of halting the decline in market share, and then lifting sales and world market

This internal strategy is being conducted by means of seminars, publications, study

teams and missions. Critical self-assessment is being encouraged among companies as well as a range of other activities, all aimed at helping recognise deficiencies in performance and rectify

Already, a degree of success has been achieved, but mnch more has to be done. At the same time, the SBAC

is working to ensure that next year's Farnborough '96 International Air Show (September 2-8) will he the higgest and best aerospace exhibition yet held (a tough self-assignment, given this year's biggest-ever Paris International Air Show). Farnborough '96 will have

more resources devoted to

administration and organisa-

tion, more exhibitors, a high

level UK government presence,

expanded civil and military

"a very useful hreakfast meet-

increased sponsorship and improved seminar pro-

All these activities are being eloped in tandem with the SBAC's direct efforts to get closer to the government and push for improvements in the overall defence procurement process, particularly a broadening of the criteria used in purchasing decisions which the industry believes are too narrowly focused on the immediate value-for-money syn-

Top-level officials of the Society, including Sir Barry Duxbury, its director, as well as from the leading companies, including British Aerospace, Rolls-Royce and major suppliers, have held dialogues with ministers, including those from the ministry of defence and department of trade and industry, and also the Treasury (the Chancellor of the Exchequer met industry leaders and the SBAC at what was described as

UK aerospace sales versus major competitors

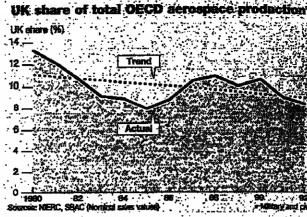
The SBAC has also made submissions to the Commons combined defence and trade and industry committees.

Sir Barry says: "The mere fact that these two committees were combined indicates a notable change in government attitude and illustrates a recognition of the key argument that we have been putting to government for some time now, namely that defence purchasing decisions are not made in a vacuum and short-term value for money is not the only factor to be considered.

"If we do not maintain and value our own industry, we

will lose the power to compete internationally in the future. In a meeting earlier this spring with MoD and DTI ministers, the SBAC pressed for a new approach to defence equipment procurement decisions. It called for a joint MoD/DTI/defence industry study in order to establish new and wider criteria for datermining value for money in defence procure-

The SBAC points out that the MoD's policy has changed markediy over the past 10 years, with industry responding to the greater emphasis placed on competition, fixed price contracting, and market



policiea improved competitiveness throughout the industry and the public supply chain, leav-ing the UK with a leaner, more efficient sector capable of providing quality products and services at reduced costs.

But it adds that while in the short term the MoD has benefitted from the emphasis on internal UK competition, when considered alongside growing international competition clear danger signals emerge suggesting the need to review the value-for-money criteria applied to defence procure-

He continues: "Considerable attention needs to be given to the economic and strategic impact which future procurement decisions - singly and collectively - will have. This must take into account the long-term effects on technology and the production hase, our capability to compete in world

markets, and employment."
Sir Barry points ont: "With an annual equipment budget close to £10bn, if is imperative that the government weighs the short term budgetary issues against longer-term value for money for the nation. and we shall continue pressing them on this."

Mald van de Krol lo

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Mixed prospects

fic seems to be continuing: the number of passenger miles flown rose by 6.6 cent in the first quarter. But the airlines' fundamental problem of over-

capacity has not gone away. There are still far too many aircraft chasing too few pas-sengers, resulting in repeated ontbreaks of fare sales and a consequent reduction in yields. And small, low-cost carriers continue to plague their bigger brethren by proliferating on short-baul routes with no-frills services at ultralow fares.

With these downward infin-

ences on fares continuing to

offset the increase in passenthe \$1.7bn it made at its peak ger numbers, the big airlines Looking on the bright side, have concluded that their best the increase in passenger trafhope of returning to an accept-

take an axe to costs. Most have have launched drastic cost-entting programmes of one sort or

The trouble is, most of the big airlines seem to be running just to stand still

United Airlines, the world's higgest carrier, has given its employees a 55 per cent controlling stake in the company in return for pay ents and

Delta Air Lines is part-way through a plan to slash 15,000

save \$2bn a year in costs by 1997. USAir, the airline in which British Airways has a minority stake, is close to agreeing a plan with its labour unions under which employees will get a 20 per cent stake in the company in return for pay

The trouble is, most of the hig airlines seem to be running just to stand still. In spite of their cost-cutting efforts and a big fall in fuel prices, their average operating cost per available seat mile barely changed last year.

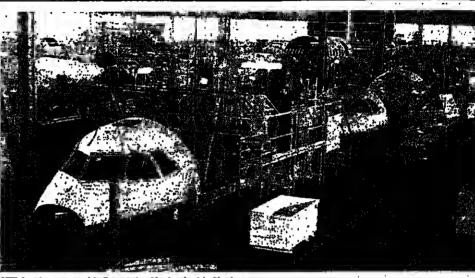
One reason is that many workers are still getting pay rises under existing employment contracts; another is that the airlines are trying to

shrink to a profitable core, meaning that fixed costs are spread over a smaller base. Some analysts nevartheless

believe there are good times ahead. They say the cost-cutting has still a long way to go; that the big carriers recently saved money by putting a cap on the commissions they paid to travel agents; and that the rate of growth of the low-cost carriers will slow as they run ont of choice short-haul rontes

Yet it is hard to ignore the negative influences on the outlook. Overcapacity is not ahont to disappear; low-cost carriers are driving their own costs down even further; and fuel prices are on the way up. And if that were not enough, the industry faces the expury of a fuel tax exemption is September which will cost it an extra \$527m a year - more than the profits it had hoped to make in the whole of 1995.

Richard Tomkins



ATR fuselage assembly line at the Alenia plant in Naples

Privatisation remains some way off

travelling more in hope than with real expectations of business is now picking up arrival. In any case, the desti- again," says Mr Zappa. tainty afflicting the industry since the end of the 1980s continues undiminished. In its annual report for 1994.

issued last month. Finmeccanica paints a bleak picture of depressed and stagnant activity. A sub-holding of the IRI state holding corporation, Finmeccanica controls most of Italy's aerospace and defence industry. Its forecasts of revival now look towards next year rather than this.

Finmeccanica owns Agusta, the helicopter-maker, Officine Galileo, the avionics company, and Alfa Romeo Avio, the aero engine company, but its principal aerospace operation is Alenia. A division of Finmeccanica itself, rather than a subsidiary company. Alenia's activities include civil and military aircraft and structural components, avionics, missiles and radar systems.

Reorganisation and cnts have been the watchwords as management has tried to cope with the tough conditions that have been buffeting the company. Earlier this year Alenia announced plans eliminating 800 jobs from the payroll of its Turin factories and 300 from operations in southern Italy.

When Alenia was formed at the end of 1990 from a merger of Aeritalia, mainly aero business, and Selenia, whose activi-ties centred on electronics and defence, the combined payroll was just over 30,000. Alenia's effective workforce was 23,000 last year and, if matters do not improve soon, it is hard to helieve that the latest cuts will be sufficient.

The joh of keeping Alenia airborne passed in February to Giorgio Zappa, the company's president, who has spent 24 years with IRI companies, in the troubled Finsider/ILVA steel group and in Finmeccanica companies. Mr Zappa says that bis strategy aims at rationalising production. "This means concentrating operations: military work in Turin, panel production at Nola near Naples and composites in Foggia. Rationalisation allows smaller payrolls and

"Cutting jobs is only part of the solution to today's problems, however. Strategy also requires a focus on selected businesses where Alenia has acquired experience and competitiveness," Mr Zappa says. Alenia's partnership with

cost reductions.

France's Aérospatiale in the ATR regional transport aircraft continues to be the centre of the Italian company's efforts in civil aircraft work, although

Italian aerospace seems to be of last year's ATR crash in the US. "There was a pause, hut

He is con agreement with British Aerospace, which has already progressed beyond a purely commercial arrangement to product support and integration of training, will yield significant results.

"The agreement opens wide possibilities in foreign markets. It is a testimony to European co-operation and commitment," Mr Zappa says. Europe's aerospace compa-

nies can no longer undertake major projects independently, he says, adding that he expects the ATR/BAe consortium will welcome other members when



Giorgio Zappa, president of Alenia: ss Is picking up again'

it starts to evaluate investment in a new airliner. Mr Zappa says he doubts that cross-border concentration and mergers of Europe's aerospace companies will he achieved for many years. So co-operation is vital. This is particularly true for defence projects, not least in a period of declining defence spending. "Italian expenditure on

defence equipment fell by 47 per cent in real terms between 1989 and 1994," he says. "This creates enormous difficulties in keeping at the technological leading edge. Yet we must if we wish to continue in busi-Alenia' hopes are pinned on

three major defence projects: the EFA (Eurofighter), the FLA transport and the Horizon naval frigate.

EFA is furthest along the development path. Indeed Alenia's prototype, the third and the first fitted with production engines, was expected to make its first flight from Turin in the first half of June.

There are, however, large obstacles to overcome before EFA production begins. Costs per aircraft and order numbers from participating countries need to be settled. Mr Zappa says that Italy is committed to buying 130, and he hopes that this programme felt the effects this will be confirmed.

Numbers are considerably lower for the FLA. Two years ago Italy said that It would purchase 60, although Mr

be this high. Alenia considers that its experience in designing and constructing the G222 transport justifies the company taking a leading role in the FLA. including siting the final assembly line.

Mr Zappa recognises that his company's contributions to the defence projects in terms of work sharing ought to depend on Italian orders.

Italy's record is not good, however, and the enormous problems in public sector finances means that It is unlikely to improve in the near future. For example, Italy has yet to put money where its mouth has been for the EH 101 helicopter, in which Agusta's partner is the UK's Westland. The EH 101 production is now going ahead thanks to British

Alenia's partners may think that there is an element of sharp practice in the projected Italian orders for 130 EFAs, 60 FLAs and six Horizon frigates. Few believe that Italy intends or has the funds to turn words into deeds.

Mr Zappa's claim that work already done on the EMPAR radar system should be recognised when Horizon is shared raises hackles in Britain, which will order 12 frigates. Italian talk of taking six frigates lacks credibility.

Alenia urgently needs work. but it depends on the Italian government. In the meantime the holding company, IRI, wants to see drastic improvement in results.

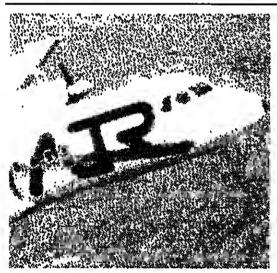
Finmeccanica's account reveal that its Agusta subsidiary lost L173hn (\$105m) last year. As a Finmeccanica division. Alenia's results are hidden in the sub-holding's accounts. It probably recorded about L250hn of losses, although Mr Zappa says that break-even was achieved at operating level before deprecia-

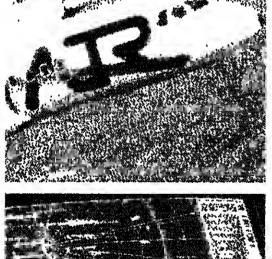
tion and financial charges.

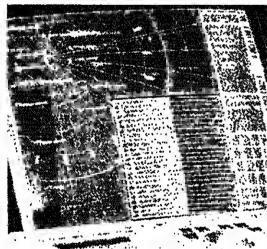
IRI is looking carefully at strategy. It wants to privatisa, but market-listed Finmeccanica is being held back by its aerospace and defence activi-

One option is to spin these off into a separate company. If this is the choice. Alenia and its sister companies would be a lame duck with slender hopes of taking wing. Five years ago. before absorption by Fib. meccanica. Alenia's, shares enjoyed stock market listing Privatisation of Italian aero space now seems far beyond the horizon.

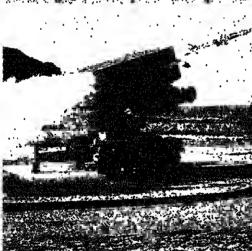
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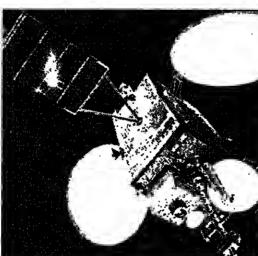












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Alenia is Italy's leading company in the design and construction of aeronautical, space,

electronic and defense systems. Alenia's products are at work in more than 80 coun-

tries on all five continents: civil and military aircraft and engines; land, sea and air

systems for surveillance, control and delease; information and telecommunication

systems; satellites and space systems; protection of the environment and the develop-

A technological heritage working today.

ment of renewable energy sources. Alenia.

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Ronald van de Krol looks at airport development

Schiphol holds the ace

Amsterdam's Schiphol Airport will be the envy of many of its hig European competitors when it wins parliamentary approval later this summer to huild a fifth runway, a key ele-ment in its ambitious plans to donble in size by the early years of the 21st century.

The additional runway, expected to be ready for use in 2003, makes Schiphol one of the few airports in Europe, along with Charles de Gaulle in Paris, that can expand its runway system with relative

Despite its close proximity to Amsterdam, the Dutch capital, and despite years of protest hy local residents and environmental campaigners, Schiphol still has room to expand into farmland located next to the

Although none of Schiphol's main competitors - London's Heathrow, Charles de Gaulle and Frankfurt Airport - has plans at the moment for a similar runway expansion, all are busily working on capturing as much of the growing European market, especially the passenger-transfer market, as they

Of the four airports, Amsterdam, Paris and Frankfurt have also invested heavily in the railway stations located

In London, future expansion at Heathrow centres on a proposed Terminal 5 which, at the cost of £900m, would boost passenger vapacity to more than

The construction of terminal buildings is less sensitive politically than building new runways.

80m a year from 52m at present. The new terminal, if built, would be three times larger than Heathrow's most modern building, Terminal 4.

New terminals also feature prominently in Charles de Gaulie's and Frankfurt's expansion programmes: Charles de Gaulle's expansion of its Terminal 2 is due to be completed in 1997, while Frankfurt opened a second terminal at a cost of DM1.6hn in

Schiphol, too, opened a new west wing of its single termi-nal building in May 1993. increasing capacity to 27m pas-sengers from 18m and marking an interim step on the way to a further expansion to between next decade.

The construction of terminal buildings is less sensitive politically than the building of new runways. It is hardly surprising, therefore, that Amsterdam



airport to commit itself openly to a fifth runway.

The British government has already ruled out the construction of a third runway at Heathrow, partly because this would involve the demolition of more than 3,000 homes. But for Terminal 5 see the new building as the thin end of the wedge that will inevitably lead to calls for a new runway in the next century.

Fears of even more runways at Schiphol have prompted the Dutch airport's management to rule out a sixth runway. Hans Smits, its president, said in late April that a good balance had been struck between eco-nomic and environmental concerns in the decision to huild

"We at the airport will there-fore not put forward proposals that would upset this balance,"

Of the four big European air-ports, Amsterdam's Schiphol is in a special position because its role in European aviation and the continent's transferring passenger market - is out of all proportion to the Nether-

While Britain, Germany and France have large domestic "hinterlands" that explain the presence of hig airports on their soil, the Netherlands, with its limited geographic expanse and its population of just 15m, has consciously set out to become a leading avia-

Schiphol has been designated by the government as the second "motor" to the national economy, complementing the ssion of Rotter-

ping port.
Already, some 45 per cent of
Schiphol's passengers never
leave the terminal building but move on to a connecting flight outside the Netherlands. This high dependence on transfer passengers explains why Schi-phol has traditionally opted to expand its existing terminal building rather than to build new terminals, as Heathrow

has done. Schiphol has also skilfully promoted itself in Britain as a regional "UK" airport, persuading travellers from cities such as Manchester, Edinburgh and Newcastle that they could just as easily take a regional flight to Amsterdam and make an onward connection than travel to London and use Heathrow or the UK capital's other two airports, Gatwick and Stan-

The Dutch airport's con-struction of a fifth runway, and its investment in further capacity increases in its terminal huilding, are designed to ensure that it can continue to handle aeroplanes efficiently at the peak transfer hours.

Aircraft operated by KLM Royal Dutch Airlines, the airport's main customer, are scheduled to arrive in three main "waves" during the day, so that passengers can switch

Indeed, it is this lure of Amsterdam that BAA, tha owner of Heathrow, uses as an rgument in favour of huilding a fifth terminal. Only hy boost ing Heathrow's capacity can the UK airport stave off competition from the likes of Schi-phol and Charles de Gaulle, BAA believes.



Developments in space technology

tures hy governments, the main fuel for its development Making a connection has been one simple factor people's desire to talk to each

While the plans by the US to launch a sophisticated manned estimated 70 per cent of global space sales, has been hit hard hy successive US administrations clawing back on the Nasa hudget in an effort to reduce the soaring US public sector deficit

entirely by the manufacture and launch of communications tions satellites and launchers however, it has been a differsatellites. In the US, the higgest market ent story. US companies such for space hardware, funding as Hughes (owned by General cuts for space technology by Motors) and Lockheed Martin the National Aeronautics and Space Administration and the (formed by the recent merger between Martin Marietta and Lockheed) have reasonably Department of Defence have good order hooks for these led to a "general tone of bleakness" in the space industry according to David Napier, an official at the Washington-

Association, a trade body. But in the field of commercial space operations, dominated by communications satellites mainly for personal telephone calls hut also increasingly for computer, TV and fax transmission, Mr Nap-ier says "everything is going gang busters".

hased Aerospace Industries

This year, according to the association, total US sales of space hardware, including satellites, launchers and ground equipment will come to \$27.8bn, a small decline on last

Nasa and the DoD purchase roughly 45 per cent each of this total, with the remaining 10 per cent being accounted for by commercial customers, chiefly satellite operators.

"Because communications satellites have so much potential, commercial space sales are expected to grow reasonaby fast over the next few

years," says Mr Napier. The US space industry as a whole, which accounts for an Russian and Ukrainian rocket

In the area of satellite hard-In the sector of communica-

'Commercial space sales are expected to grow reasonably fast over the next few years'

products - even though the world market for launching satellites is dominated by Arlanespace, a French-based organisation owned jointly by west European governments and companies.

Arianespace, operator of the Ariane rocket, is recknned to have 60 per cent of the orders for the 68 satellites due to be launched over the next few

While its higgest competitor ls Lockheed Martin, rivals include government-owned organisations in China and Russia which are trying to gain orders for commercial satellite launch projects using a variety of rocket systems.

Another rival could be a consortium of Boeing, the US zerospace company, Norwegian shipbuilder Kvaerner, and the

builders RSC-Energia and NPO-Yuzhoye, which are planning to huild an unusual seabased rocket launch centre for commercial satellites at a cost of up to \$150m.

ware, a leading player striking an innovative stance on a num-ber of projects is Orbital Sciences Corporation of the US which plans a series of Orbcomm satellites for telecommunications and data transmission and also is developing the Pegasus system of launching the mini-satellites from air-

craft. In other recent projects: Space Access, a US satellite company, has proposed a \$1.93hn scheme to install a launching station in Portugal for hundreds of small satellites as the basis for a global tele communications network.

Inmarsat, the London-based satellite communications organisation, has promises of more than \$1bn from its members to finance a global mobile phone satellite service.

 Spacecom, an Israeli company, has announced plans to launch a \$250m communications satellite called Amos 1. The satellite will provide direct television broadcasts into

• TRW, the large US-based aerospace manufacturer, is planning with Teleglohe, a Canadian provider of intercontinental telecommunications services, a \$2bn Odyssey system to provide a global satellite system for mobile phones

If these projects appear excit-ing and go-ahead, the same cannot be said for the US space station project which is being

built for Nasa by an industrial group headed by aerospace manufacturer Boeing. In 1984, former president Ronald Rea-gan said the station would be in orbit in 1992, in time for the 200th anniversary of Christopher Columbus's discovery of

the new world. As events have turned out, the space station (if it happens at all) will become a monument to the difficulties of steering highly complicated technological projects through the US's political hureacracy and of the US public's waning

Public disillusionment in the US with putting people into space set in after the 1986 Challenger

explosion

interesting in putting people The station is now tenta-

tively scheduled to be in orbit by 2002. But many people are betting that it is unlikely to be in operation by 2020 - and some feel less than confident it will be in service by the end of the next century.

The atmosphere at Nasa is completely different to the gung-ho days of the 1960s when president John Kennedy promised he would put an American on the moon by the end of the decade - a feat which Nasa accomplished with several months to spare.

"The space station has fallen victim to a continued cash shortages at Nasa: it's been squeezed so hard there's hardly anything left," says Dan Greenherg, editor and publisher of Science and Govern-

ment Report, a Washingtonbased newsletter for the US science community.

Public disillusionment in the US with putting people into space set in after the 1986 Challenger explosion, which killed seven astronauts on a routine space shuttle launch.

Now that the space sbuttle programme has returned to a semblance of order after a series of costly safety improvements, public interest in manned space extravaganzas is still far from high. This is despite the plans for the space station - which the shuttles are due to lift into orbit in segments - and a sequence of ambitious manned ventures between the US and Russian

over the next two years.

Over this period the US space shuttle Atlantis is due to dock seven times with the Russian space station Mir. This is a technologically simple module which has been orbiting the earth, for most of this time

with a crew, since 1986. A high point is expected later this month in the first of the dockings - which promises to be the first time that US and Russian spacecraft have linked in space since the 1975 Apollo-

Russia is also co-operating with Nasa on the Alpha space station programme, which will take a total of 27 shuttle flights and 44 Russian flights to build and to send up crews and fuel. Nasa estimates the orbiting laboratory will cost the US tax-

payer nearly \$30bn - up from the estimated \$6bn forecast in 1984. The investment will not include smaller sums to be contributed by Russia, Japan and western Europe, which through the auspices of the

European Space Agency is

designing a small laboratory to

he plugged into the central

core of the station.

Peter Marsh



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Value for money a priority

At the peak of the cold war, 85 per cent of all military spending worldwide came from memhers of Nato or the Warsaw Pact. Since the collapse of the confrontation in central Europe, defence spending has fallen by about a third, and more if inflation is taken into account. Spending hy members of the Warsaw Pact is harder to gange accurately, hut their military hments have also faced heavy cut-

So it is hardly surprising that the end of the cold war has had a profound impact on defence policies and knock-on implications for the defence industrial base. Countries have had to be more selective in the projects they back and value for money has become a much higher priority, replacing the old doctrine of high technology performance more or less regardless of cost. Companies in turn have had to retrench

The short-term impact has been that western governments have had to accept some retreat from the policy drive of the 1980s towards increasing competition between defence manufacturers. In many cases, the level of work is no longer sufficient to maintain more than one producer of equipment. Even the US now has to accept that it can only afford one maker of tanks and submarines.

Policies to ensure value for money have thus had to adjust to reflect these new realities, and ensure that ministries can still get value for money. In the UK the process of Napnoc - no acceptable price. no contract - has been refined to give the ministry of defence a clear view of the margins companies are earning. Sole hidders for a particular project have to expose their internal financial details to close scrutiny to satisfy the MoD that they are

not padding out contracts. The US has gone beyond this and is actively managing its defence industrial hase. A new assistant secretary of defence post, currently occupied by Josh Gotbaum, has been established to manage the consolidation of the defence industry. It is not designed to provide an strongly interventionist industrial policy, hut does recognise the involvement of governments in

defence issues. Mr Gotbaum's office scrutinises potential mergers within the defence industry to assess their acceptability to the Pentagon. It has recognised areas where the government has to accept monopolies or near monopolies and that the government may have to order some equipment not strictly needed simply to keep facilities open. A third advanced Sea Wolf submarine is likely to be huilt at General Dynamics Groton Connecticut yard, for example, simply to maintain a critical mass of staff.

The US is also examining the complete procurement process to see where money can be saved. External anditors suggest that Pentagon procurements cost 18 per cent more than their civilian counterparts as a result of the way the Department of Defense does husiness. On a \$50bn equipment hudget every year, saving that money could free up almost \$10hn for

Mr Gotbaum is also working with industry to ensure that the benefits of consolidation flow both to companies and the government. The rationalisation of missile and space launcher capacity as a result of the merger of Lockheed and Martin Marietta had to be approved by the Penta-gon because it reduced the choice avail-

However, the DoD stands to save about

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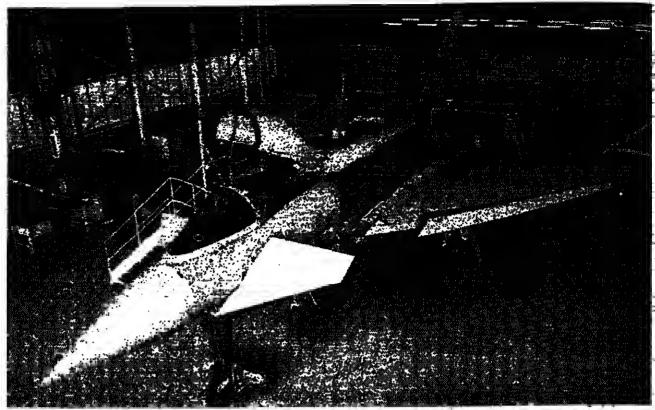
There are strong signs of action in the US and some movement in the UK, but the lack of response in continental Europe does not mean that these governments have avoided the problem. According to the white paper produced last year, France intends to maintain its defence spending, though it remains to be seen whether President Chirac will maintain that policy.

Even so, heavy losses means that pressure on over-manned state-owned defence companies is strong. While the French government has made some moves in the direction of defence industry consolidation within Europe, and has suggested a new co-operative arms agency, questions remain about the degree to which France will be prepared to tackle the industrial issues which face it.

Companies and governments worldwide will have to work on ways to make equipment more affordable. Some programmes in the US, such as the Joint Advanced Strike Technology, aimed at producing a naval and air force strike fighter, or the New Attack Submarine programme, are working on ways to cut costs.

JAST uses an all-computerised design system which eliminates the need for early prototypes and should make manufacturing easier. Its enthusiasts hope that JAST could become the 777 of the military aircraft world, cutting the design time, limiting risks of cost overruns and producing a predictable and capable aircraft in record time. The aim - as with the four-nation Eurofighter 2000 - is to break the spiral of geometrically increasing costs for each new generation of aircraft.

In the long term, however, retrenchment



and use of new technologies to cut equipment production costs may not be sufficient response to the pressure on defence hudgets. The cold war was a powerful technological driver which gave a level of certainty to governments and industry allowing them to invest in technical development. Now the need to have the highest technology solution to any problem is much reduced, and the funding is not

there to produce huge leaps forward. The result is likely to be a much slower pace of technical development over at least the coming decade, and perhaps

much further into the future. If that happens, government and industry will no longer be able to carry on with traditional development and procurement policies: there may simply not be sufficient busi-ness to warrant long development phases for entirely new aircraft followed by long production runs.

Instead, industry and governments may

have to adapt to using many fewer engi-neers to produce upgrades and service life extensions for existing equipment. Key skills, particularly to innovate, may be lost and the period of two world wars and the cold war could become seen as an unusually rapid period of development of military technology.

That message - that large parts of the defence industrial base are redundant and unaffordable - has not yet begun to sink in to policy makers in governments or industry. But the time when it will may be fast approaching. With current budgets. equipment is going to have to last a long time and the approach will be one of make do and mend. Coping with that problem is the 21st century challenge for both defence planners and industrialists.

Bernard Gray looks at progress on the Future Large Aircraft military transporter

Management issue still to be resolved

the ceotral requirements for

Large Aircraft military transporter will be hoping that the Paris Air Show will see an announcement that the project has now heen successfully transferred to management hy the Airbus Industrie consortinm. Realists who have watched the programme will, however, fear that the FLA will miss another deadline in its development.

To be fair to the FLA's backers, the problems of transferring the project to Airbus are sphstantial. On the usnal

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shareholdings in the Airhus military aircraft company will be based around likely orders from the partner governments. However, those orders are unlikely to be finalised for at least a year.

eanwhile, the structural problem of how to accommodate Italy, which is in FLA but is not a partner in Airhus, has still to be satisfactorily resolved. Putting the project nuder Airbus management is one of

Financial Times in partnership with Izvestia, Russia's leading independent daily.

the UK rejoining the project. The concept sold to the UK hy the FLA team was that this would be much more like a civil aircraft development programme than a conventional military venture. Provided the partner governments agreed a fixed specification early in the programme which was not tampered with, Airbns would produce an aircraft in a timely

manner and at a fixed price. From that point of view it will be interesting for many other future military projects gramme fares. The issue of Airbus management should be resolved, at least in principle, and the ontline of the aircraft's specification should flow from the feasibility study which has just been com-The timetable for further

action now calls for the main partner governments. France. Germany, Italy, Spain and the UK to initial a Memorandum of Understanding on handling of the project this summer. with the legal Airbus company

possible thereafter. The feasihility study should then be used as the basis for agreeing a military European Staff Target, perhaps by the antumn, which would lock in the basic characteristics of the aircraft's specification. The more difficult issue will

he the agreement on how many aircraft each country wanted to buy, which might be taken next spring hut which might equally prove elusive. The pressure will be on, however, because the FLA's pre-de-velopment phase is slated to hegin in January next year and run for 30 months to mid-1998. Main development should then run to 2002 with and available by the end of

According to British Aerospace, the main elements of the specification are now pretty well fixed. It will have a cargo bay 4m wide, enabling it to carry two Land Rovers side by side. Its maximum take of weight will be 114 tonnes and it will have a high swept wing with four turbo-prop engines to give it a cruising speed of

Continental partners in the FLA programme seem less con-fident that the specification is so cut and dried. Some have argued for a smaller cargo box which would reduce the cost of the aircraft.

Others continue to hanker for a turbo-fao engine which would increase the aircraft's crnising speed. While an engine change is now unlikely, debate about the specification of the aircraft, and the trade off hetween size and cost. could cause some delay.

The FLA military airlitter: the pre-development phase is stated to begin in January next year Part of the problem with speci- last year it is one of the few fication is that while reducing countries with any money forsize will cut costs and make the programme more politi-

put the FLA closer to the market dominated by Lockheed Martin C130J, cntting into export prospects. The variety of missions each country wants to fly also pulls the FLA in several directions. France would love the strategic lift capacity which a large aircraft would hring, hut even the size of FLA envisioned by the British would be almost too large to fit into some of the African

nt if the specification causes some debate, it will be as nothing to the arguments over work shara and financial commitments to the project. At present none of the main partners has substan-

airfields France might wish to

tial sums hndgeted for the Indeed it is ironic, given the UK's previous withdrawal from the project, that as a result of its decision to have

fewer C-130Js than allowed for

mally allocated for the aircraft's development.

hard decisions about hudgetary priorities and just how much each country wants the FLA. As with the aircraft's specification, the risks are that the programme will face further delays, hut with some commitment on the size of orders required, 1996 will be a crunch year for the FLA. Another requirement for

Britain's re-entry to the project was that its share of development costs should he financed commercially. For example, the government might pnt down a deposit against delivery of an aircraft, and agree to have development costs rolled into a higher fixed price of the transporter in return for a firm order. The companies could then use the order to get bank finance for the required development work. That plan will have to wait for firmer ideas on numhers, hnt given the cash-

strapped state of most member

governments, the idea may

have appeal well beyond its original UK audience.

The other hurdle to he jumped is the decision over of the aircraft. By far the most contentions element is the manufacture of the wings, with both Dasa of Germany and BAe still determined to win the work. If the UK orders sufficient aircraft to justify a 20 per cent share of construc tion, which would be roughly equal to making the wings, it is hard to see the work going to Dasa. BAe has a large investment in its wing factory at Chester, and other Airbus members are unlikely to sanction the expensive creation of

dnplicate facilities. . Still, Dasa feels that it is manufacturing low technology components in Airbus, despite its high shareholding. One compromise may be that final assembly of the FLA is allocated to Dasa's plant in Hamburg. It may not give Germany all of the work it seeks, but with Germany and France as the only final assembly manufacturers for Airbus, the prestige may soften the hlow.

American defence industry consolidation has left Europe struggling

US market sets the pace

in the US defence industry, which was crowned by the Lockheed Martin merger earller this year, has left European defence companies struggling in its wake. While many n Europe will gaze enviously at the large US market and private sector shareholdings which allow businesses to be bought and sold easily, few in Europe are certain how its industry can respond to the challenge of contracting defence hudgets effectively.

Some consolidation within countries is happening, as British Aerospace and the General Electric Company's pursuit of the submarine maker VSEL

Costs are also being cut, particularly in the UK where staff numbers continue to fall. Yet the process of rationalisation on the continent, and the pace of cross-horder consolidation, is still painfully slow.

It remains to he seen whether continental countries are willing to take the social pressure which would follow a rationalisation of their defence industries, or whether they prefer to maintain effective subsidies from taxpayers hy huying expensive defence

Mergers heing negotiated,

such as that hetween BAe's and Matra's missile businesses tive programmes as the best are taking years to complete. way to cut excess capacity in Existing collaborative programmes, including the £32hn the industry. Eurofighter 2000, still have to pick their way through politi-cal minefields such as opposi-

tion in the Bundestag. Planned joint programmes such as the Future Large Air-

craft have to piece together difficult coalitions and elaborate shareholding structures to

Governments have often taken a narrow national view and refused to offer the leadership to industry, or to design frameworks which could facilitate change, or even to make the compromises which would belo close deals.

The difficulties are certainly enough to make most defence industry executives weep. Yet there are at least a few signs that some change is on the way. Roger Freeman, the UK's defence procurement minister, has taken the initiative to argue in favour of cross-naHe has suggested that the

UK should join the proposed Franco-German arms agency, and offered to put programmes such as a new Multi-Role Combat Vehicle, the £6bn Horizon frigate project and even the

Governments have often taken a narrow national view and refused to offer the leadership to industry

Eurofighter under its management. Mr Freeman's vision is of a project office asking for competitive tenders for batches accommodate a patchwork quilt of partners. of work. That may be a far cry from traditional continental ideas of work allocated on the basis of purchases, but it does at least give ministers who discuss the defence industry in

the Western European Armaments Group a basis for talks. There is also a much greater recognition among European governments that autarky in the defence industry is no longer a practical policy. Even France, long the country keenest on maintaining its complete independence, is collaborating with the US on development of the most sensitive and high reaching areas, such as anti-hallistic missile technologies. At the other end of the scale, both Britain and France seem content to become dependent upon each other for the supply of commodity items such as bullets, provided the interdependence is mutual.

Progress on rationalising collahorative programmes is being made too. The UK is suggesting ways of improving the operation of programmes such as Eurofighter, with work parcelled out in a more modular way so that single companies look after complete subsystems. The Horizon frigate collaboration between France, Britain and Italy also contains competitive elements for the first time.

That still leaves a huge task for European politicians and industrialists to translate the rhetoric about an integrated European defence industry into effective action. The philosophical gulf hetweeo Anglo-Saxon husiness methods and continental co-ordination is huge. It is, for example, far from clear that countries such as France or Germany will be prepared to accept the compet tive spurs which the UK wishes to see applied to compa-

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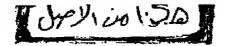
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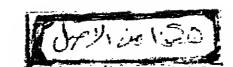
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he dealening roar of PR campaigns in full flight threaten to drown ont rational debate in Britain as the UK's competition to select an attack helicopter for the army approaches its crescendo. But all of the hype is part of a struggle for life in a helicopter industry badly hit by the global decline in defence

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A decision is expected by July, and with business et a low ebb around the world, the result will help determine which companies have the stronger hands when the rationalisation of the global helicopter business starts.

As the £2hn competition to supply 91 anti-tank belicopters enters its final phase three main teams are still in the running: the McDonnell Donglas Apache; Eurocopter's Tiger and the Beil Cobra Venom. The Apache team looks like

the aristocrats of the competition. Led by Westland, the only UK belicopter maker, the Apache is the main anti-tank nelicopter of the US Army and is also the apple of the British Army's eye. It has the most lift, can carry the most weaponry, but is probably also the most expensive option.

Vying with the Anache as favourite to win is the Eurocopter Tiger. Its bid is being headed by British Aerospace in the UK, and it claims to be the most modern design, using an infra-red sight and the newly developed Trigat missile. BAe says that it is the 21st century apon which the UK needs.

It also has the advantage of offering a European solution at e time when the ministry of defence seems keen on Euroan collaboration. BAe would Bernard Gray on UK selection of an attack helicopter

Competition will be a test of strength

and Germany.

The wild card in the competi-

tion is the Bell Cobra Venom. It is e development of the AH-1W used by the US Marines, which originally dates back to the Vietnam war. To update the helicopter GEC-Marconi, which is acting as lead contractor for the UK competition, has developed a new glass cockpit which cuts back on the workload for pilots and so increases the helicopter's capability. The Venom's main selling point is cost - it is likely to be much cheaper than the Apache or the Tiger and, argues GEC, offers almost the same capabilities.

At present, speculation on the outcome puts the Apache and the Tiger neck-and-neck. Both would be modern helicopters with new weapons systems - in Apache's case the Longbow radar and Helifire missile, in Tiger's the infra-red

Ironically, for a competition where the MoD wanted to huy equipment off the shelf, both still need development work. Apache benefits from its success in the Gulf war and the recent decision by the Netherlands to buy it despite heavy lobbying by the Tiger team, while the Tiger team claims much lower operating costs for

delivered to Britain, France its aircraft because of its more modern design. Both also claim that large amounts of work would be done hy British industry.

Given the strong organisations and lobhles behind Apache and Tiger, it is hard to see the Venom winning unless the Treasury decides that cost is the overriding concern. The ace up the Apache team's sleeve is the solid backing of the British Army; Tiger's trump card could be a desire in London to make a pro-European gesture to the new French president.

ith the UK ettack helicopter being one of the few large orders on offer, the winner will have a much stronger order book, and negotiating position, if the long-awalted rationalisation of the helicopter business gets under wey.

While executives in the helicopter business argue that collaboration on particular projects offers flexibility in the wey forward, thet approach may no longer be efficient enough to cut costs, and talks on outright mergers may have to start

If the Tiger wins, then the Franco-Germen Eurocopter group would be in a strong position in Europe. While neiment but hold off production of Comanche as part of a review of large procurement programmes last year.

The programme is now being altered, and the companies are arguing strongly for the role Comanche can play in local control of the battlefield and as a focus for information. How ever, it is far from clear that the extra funds needed for production will be found soon.

Even if Comanche production is delayed, Boeing looks the best placed of the helicopter compenies. McDonnell Douglas may pick up some useful work if Apache wins in the UK and will continue to update the US fleet, but lacks produc tion on a new model. Beli and Sikorsky et this stage look to bold the weaker hands, hut there is little way to tell which wey the helicopter business ght be rationalised.

Many industry executives believe that there is room for perhaps two or three US helicopter makers and one or two in Europe. Rationalising the hespoke cottage industry which has heen belicopter manufacturing is more easily said than done, however. Boeing looks like the nucleus of one US survivor and Eurocopter could form a European bub. How the others will be drawn into these groups is more problematic.

It is, bowever, increasingly clear that they must be. The high cost of helicopter transport has kept it as e military necessity and civilian luxury. With military hudgets squeezed tight, armies may not even be able to afford their necessity unless costs are cut in the industry through ration-

alisation. And soon. vious deputy defence secretary, £300m cost, Given pressure on government hudgets, such problems can only increase Export markets will be eroded

even more rapidly if Europe

does not improve its competi-

tiveness as fast as the US.

The risk is that Europe will obtain increasingly ineffective defence equipment at rising prices. Industrialists have to make what progress they can, and press governments to act. The cracks are already showing badly. Given the length of time it takes to get anything done in Europe, the sooner everyone starts, the better the chance the European defence industry has of surviving.

Bernard Gray | gramme". Eurocopter's UK

Profile: Eurocopter

Appealing to British industrial ambition

ernment's fortbcoming order for as many as 91 ettack belicopters, Jean-Fran-cois Bigay, president of the Franco-German joint venture of Eurocopter, is appealing to Britain's industrial ambition.
"If the British want to stay

ont of designing helicopters, then our offer is not the best for them," he says. The UK defence ministry should opt for one of Eurocopter's two US rivals - McDonnell Dougles with its Apache or Bell with the Venom. Either of these US programmes will ensure, Mr Bigey says, that the UK remains e metal-bashing subcontractor in helicopters. Eurocopter, Mr Bigay says, will turn to others ready to ioin it in the adventure of coproducing new belicopter models, such as the small 1.5 tonne EC 120 helicopter which it is designing and building with China and Singapore.

In fact, Mr Bigay is anything but insonciant about the UK decision. Eurocopter is desperetely anxious to win the British order. Over the past three years its has won about 50 per cent of the market for civilian belicopters. But gaining only 15 per ceot of the bighly protected military market in the face of fierce US and Russian competition, it is still losing money for its sharebolders – patiale with 70 per cent and Daimler-Benz Aerospace

(Dasa) with 30 per cent. In the three-way battle for the UK order, the rival Tiger-Apache-Venom bids "will be roughly the same in terms of cost and technical parameters", Mr Blgay says, "I am sure thet the [UK defence ministry] negotletors have

brought us very close together," he says. He is thus keen to vaunt the Tiger programme's industrial and political differences from its rivals. If the UK government were to huy Eurocopter's Tiger, Mr Bigay says: "UK industry would not he just a subcontractor, hut become an integral part of the proMaria Andrew

partner in the Tiger hid, British Aerospace, would end np making the munitions and supply some parts not only for the 91 Tigers going to the UK, hnt for the 427 machines which the French and German governments are to huy, and for any exports.

"The capacity for European countries to conduct joint military operations is also fundamental," Mr Bigay says. Belonging to e joint pro-

in the long run, Mr Bigay sees the need for a single European company making military helicopters

gramme with France and Germany "would also help the UK share some life-cycle costs like spares and training with its partners", he adds.

In the long run, Mr Bigay sees the need for a single European company making military helicopters. "Where the US places orders for several thousand mechines, in Europe we never have e total yon can't go on splitting that

Nor are joint programmes enough. "Look at the co-operation we et Aerospatiale once had with Westland in the UK. making the Puma, Gazelle and Lynx, These were great successes, with lots of exports. Bnt now we do nothing together." The answer for the long term, be says, is to form joint companies such as Eurocopter with e sharing of

one country, beceuse thet would not work in Europe." Under Mr Bigay and his German co-chairman. Siegfried Sobotta, Aérospetiale and Dasa have pooled their marketing and research activities and produced a common range of machines from 1.5 to 10

assets. "We need to get maximum competitiveness without

grouping all the activities in

"But we still have to tackle the issue of industrial rationsuch as the Tiger and the EC 135." he says. "We are considering the possibility of single production lines for these," be says, but coyly will not reveal

David Buchan

Europe falling behind

Continued from page 10 Equally, it is hard to see that Britain will accept the degree of international industrial pollcy, and potentially the restrictions on US competitors, which some on the continent feel is essential to nurture a genuinely European defence indus-

The gap is made clear by a couple of examples. France wants the UK to allocate a development programme for its long range stand off attack missile to the proposed BAedatra missiles venture, when It has already launched an

open competition with potential entrants from the US and other parts of Europe. The UK has refused to accept French arguments that the US market is not open to European pro-ducers, and that Europe should be more closed to the US in return. On the other hand, France is unlikely to abandon its policy of juste relour on future projects, such as Hori-20n or the FLA regardless of how inefficient the process is.

Narrow national self-interest also plays a part in frustrating progress. This summer there will be a tough private negotiation, and possibly even a public row, over how work should be shared out for the production phase of the Eurofighter. Germany wants to keep a third of the work - its share of the development spending despite the fact that the project agreement only entitles it to less than a quarter of the work now that it has decided to huy fewer aircraft.

Divisions over such issues hardly augur well for the prospect of countries being sufficiently long-sighted to make the compromises necessary to huild a European industry.

Although governments, and the companies they are so closely entwined with, can buck worldwide pressures for more efficient production for some time, they cannot do so forever. Already in competitions in Europe, the lower cost of US systems is leading countries to reject the European The Netherlands decision to

two other European competi-tors could be attacked easily as

they are part of larger groups, the difficulties faced by Agusta and the smaller order book of

Westland could force them into

talks on closer links from a

which also won an order for 22

EH101 transport belicopters

from the UK recently, would be in a stronger position. But its

ties to Agusta on the EH101

may not be the springboard to

a closer union between the two

companies given the weakness

of the Italian position. How

ever, Westland could start

with a much stronger hand

negotiations with Eurocopter

in the US, too, the outcome

of procurement decisions is tip-ping the scales between manu-

facturers. The Boeing-Bell V-23

Osprey, which can hover like a

conventional helicopter or fly

like a prop aircraft, seems to have firm congressional sup-

port. It is also the top priority

for the US Marines, who want

to replace their ageing trans-

port helicopters.
The future of the other large

US procurement, for the Boe-

ing-Sikorsky designed Com-

anche battlefield reconnais-

sance belicopter, is far less

certain. John Deutch, the pre-

less advantageous position. If the Apache wins Westland.

buy the McDonnell Douglas Apache attack helicopter on performance and cost grounds is a straw in that wind. Several UK competitions have also favoured US projects, and British defence ministers had to order the MoD to buy Westland EH101 helicopters on strategic grounds, despite the extra

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rationalisation and

restructuring within

the aerospace industries world-

wide has accelerated as a

result of the combination of

intensifying international competition, the economic reces-

the possibilities of each side -

commercial and military air-

kind of financial position to

This does not mean, how-

ever, that while civil and mili-

tary activities are generally

conducted in different factories

with different specialist design

teams and separate production

facilities, there is no cross-fer-

tilisation hetween the two

mental technological research

and development. Because

of the Cold War.

Interaction grows

sion leading to cuts and deferdefence contractors some £3bn of civil sales per annum were rals in airline orders, and the huilt on defence-generated severe effects on western technology.

defence spending of the ending Sir Barry Duxbury, director of the SBAC, says: The inter-dependence between civil and While there has been talk of military operations has therefore created significant, mutucraft manufacture - turning to ally reinforcing effects which increase the nation's wealth." the other for some hope of relief, neither has been in any Fundamental areas of take on board the other's prob-

which have featured in this cross-fertilisation include: The expansion of computering techniques;

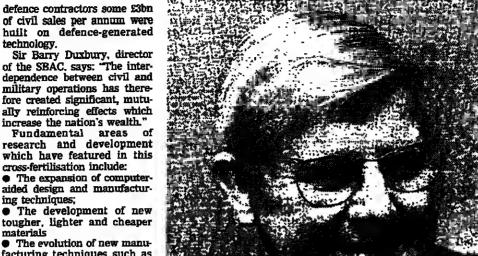
• The development of new tougher, lighter and cheaper

facturing techniques such as super-plastic forming and diffu-In fact, a great amount of sion bonding of metals; and such exchange does occur. The use in hoth military and commercial aircraft of such operational techniques as fly-by-wire.

This trend is bound to con-More than 75 per cent of tinue, especially since the number of new projects com-UK companies working ing forward is limited with on defence programmes each becoming more expenalso have civil sive, requiring the maximum operations possible transfer of technology and manufacturing process defence requirements - and between them so as to keep space industry requirements

On the manufacturing side. also - continually push the however, a fighter aircraft and frontiers of technology ever further forward, this cross-ferits engine are totally different tilisation is increasing. creations from an airliner. The Society of British Aerowhich is why design, develop space Companies (SBAC) ment and production in each points out that more than 75 arena are generally conducted separately by different specialper cent of UK companies working on defence proist design teams in different factories with different labour

operations. It says that an independent Many of the world's leading study of the civil use of aerospace companies have the defence technology developed two types of activity in progby Ministry of Defence contracress at the same time - and tors has found that in 40 sometimes three if space activ-



Sir Barry Duxbury, director of the SBAC

ity is also included - hut in separate factories run by separate divisions or subsidiary

This however, does not prevent either the cross-fertilisation and transfer of technology between them, or even sometimes the exchange of component manufacture and parts assembly between civil and defence factories, especially where individual company financial or lahour requirements may dictate.

This is likely to continue, notwithstanding the extensive restructuring taking place

between companies on hoth sides of the aerospace business. That restructuring is

designed to ensure that the effects of shortfalls in workloads generated by concurrent airliner and defence procurement cutbacks, at a time of rising costs, are minimised in an increasingly competitive international environment.

The objectives are not to integrate military and commercial aircraft design, development and production, which would be impossible because of products, but to ensure that in

each arena, the most economically beneficial use is made of the expertise and facilities the companies concerned possess. and that the available markets are not swamped by excessive and therefore wasteful compe-

This is why the idea has heen mooted in Europe of hringing Airhus, hitherto solely an airliner consortium into the military fold as the organisation potentially responsible for the projected military transport, the Future

Large Aircraft (FLA). If the FLA is brought to fruition, Airbus itself would co-ordinate the venture, and serve as a sales organisation, as it already does for its broadening family of airliners. By itself it would build nothing. Its partner companies, BAe, Daimler-Benz Aerospace of Germany , Aérospatiale of France and CASA of Spain, together with any others likaly to become involved, would ha tha FLA manufacturers, with specific work-shares calculated on the basis of how much cash their governments committed to the

Those companies would use their existing facilities to develop and huild their respective contributions to the aircraft, as they now do for Airhus airliners

In essence, because of its now extensive and highly successful experience in co-ordinating the development, production and sale of large internationally-collaborative commercial transport aircraft. Airbus offers a convenient way of getting a similar large, internationally-collaborative military transport aircraft off tha ground. It would obviate the need to create another similar. hut this time military, international organisation to do the

To that extent, the Airbus FLA idea can be viewed as a cost- effective extrapolation of existing cost-effective restructuring in the European aeroBernard Gray on BAe/Matra missile operations

Agreement could fall at the final fence

While British Aerospace and Matra may not feel quite like Romeo and Juliet, the proposed marriage between their such a rocky path that either company might be tempted to give up in despair. Although the current difficulties blocking a deal may eventually be resolved, the negotiations have taken two and a half years and could still fall at the final fence.

When BAe and Matra announced the engagement of their missile operations at the thought that cotting a deal would be so hard or take so

Now, at the very last step, with a commercial deal ready to be signed, the marriage contract could be torn apart because of a dispute between the French and British minis tries of defence.

The problem could be seen with a charitable gaze as a philosophical difference between British and French defence procurement policies. Less charitably it might be viewed as a French attempt to squeeze a little more from a deal than was on offer, with potentially hazardous results.

After their lengthy discus-sions, BAe and Matra agreed a commercial deal where both sides would have a 50 per cent share in a joint venture Matra-BAe Dynamics.

But because Matra has the larger order book, BAe agreed to pay Matra £50m on completion of the deal, and up to another £100m over the next decade, depending on how much of Matra's order book is turned into sales. The two companies have broadly complementary product ranges and have been successful in different export markets.

The sticking point is that the French government has threatened to withhold its consent for the deal unless the UK awarded a contract for a stand-off air to ground missile to the newlyweds. "This is a oew marriage, and it is traditional to give a gift to wish the venture well," said one French defence executive.

Unfortunately, the UK ministry of defence has already pnt its requirement out to does not take kindly to such overt pressure. While some sootbing noises have been made in Whitehall it has been made equally clear that no such deal can be done. Unless

a fudge can be found, the merger could come apart.

The French government and Matra are concerned that UK procurement policies, which allow competition from all comers, may end up awarding a number of lucrative contracts to US manufacturers while, they allege, the US market is not open to them. In particular the McDonnell Douglas GrandSLAM missile would be a strong contender for the UK's stand off requirement and the idea that Matra teamed up with BAe only to see orders flow to the US worries hoth Matra and the

French government. Britain has a long shopping list for new missiles in the next few years. It needs to

The juicy list of potential orders is one of the reasons Matra decided to tie up with BAe in the first place

order the 250-mile range stand off ground attack missile, an air-launched anti-tank missile. an advanced medium range air-to-air missile for Eurofighter and a close-in air fence missile for the Horizon

Indeed, the juicy list of potential orders is one of the reasons Matra decided to tie up with BAe in the first place. But they may refuse to sign if they fear the work will end np going to the US.

While the conflict between French objectives and the open UK market may be resolved, a deal is some distance off. One hope is that the election of a new French president may provide an opportunity to change tack on the issue without too much loss of face all round. Nevertheless, there is still a chance that the merger could fail. And the problem highlights the difficulty of negotiating trans-national mergers within Europe when the procurement philosophies government's differ so

Given the slowdown in husiness since the end of the cold war, rationalisation is necessary. As well as the Matra-BAe tie-up, talks between Aérospatheir missile ties are continning, though once again the process is taking longer than

many anticipated. More visionary eyes also look towards a grand alliance

merging with an Aérospatials Dasa group. They also look to bring in the electronics compa-nies such as GEC-Marcont and involved in missiles at some

September 25 to 12 to 15

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Such deals might eventually come to pass, but progress on the rationalisation is painfully slow when compared to the shakeont which has already happened in the US. The way in which Hughes has consolidated its own missile business with that it bought from General Dynamics at a single site in Arizona points the way for-

The recent merger between Lockheed and Martin Marietta will also bring its most substantial rationalisation benefits in missiles and space launchers. There may well be further consolidation to come: Raytheon, Lockheed Martin and Hughas have critical mass, but McDonnell Douglas, for example, must decide what to do with its missile operation now that it has lost out to Hughes in the competition to supply Tomahawk cruise missiles to the Pentagon.

But at least the potential path for companies in the US is reasonably clear. Those companies looking to consolidate have also got the backing of the Pentagon. Not only has the US Department of Defence accepted that a reduction of competition is mevitable, it is also actively promoting itcases where the deals can save

In the case of Lockheed Martin, for example, the Pentagon estimates that as a result of rationalisation and cutting the number of factories making space launchers and misides, the DoD will save \$1bn over the next decade.

All of which is a far cry from the tortuous politics of Europe, where countries are wary of sharing their highest technology missila technology with others, and differences of procurement philosophy and. timing make the valuation and integration of husinesses diffi-

If Europe is finding it hard to merge its missile makers, how much harder will it find ship industries? The economic pressure and logic for Euro pean rationalisation is strong, but so far it seems the political will to complete the job is not equal to the task.

The environmental task is becoming tougher

Strict controls force industry to adapt

airline industries collectively have achieved a good environmental record over recent decades, despite some contrary

The air transport industry. for example, has been obliged increasingly to fulfil the progressively tougher environmental controls on engine noise and pollutant emissions imposed by governments over the past 30 years, in addition to being required to adapt flight operational techniques to meet airport noise abatement procedures and night flight restrictions, with the inevitable economic penalties involved.

At the same time, the airlines have been adapting their techniques in other directions to make them more environmentally friendly. These activities range from reducing engine noise on the ground at airports through to recycling waste materials from engine

oil to office paper. Some airlines, including Brit-ish Airways, publish annual environmental reports, setting out in considerable detail precisely what they are doing so as to demonstrate to the world their environmental aware-

This philosophy is spreading. The International Air Transport Association (Iata), earlier this year published a major report, Environmental Review, setting out not only what is required by governments and other authorities in environmental matters, but also what the airlines are doing about meeting them.

In addition, lata is setting up, in conjunction with other organisations, an "Environmental Data Bank". This is designed to hring together as much detailed information as possible on the measures that could and should he taken hy airlines in order to improve their environmental awareexchange hetween airlines of that information

In the aerospace manufacturing industry, much has also been done to meet growing environmental pressures. New techniques, especially computer-aided design, development and production methods, have swept through the industry. improving processes so as to reduce waste, especially in the use of metals and other materials, which have not only had an environmental impact hut

Manufacturers have spent billions of dollars on the development of aero-engines that meet the increasingly stringent noise and emissions regulations

also a significant economic

The commercial engine manufacturers in particular have spent billions of dollars on the design and development of improved aero-engines to enable airlines to meet the increasingly stringent noise and emissions regulations, with the result that the latest jet engine types available, such as the Rolls-Royce Trent, are much quieter and cleaner than their predecessors, despite their greater power outputs.

But it is recognised that the environmental task is becoming tougher. There is still much more research to be undertaken into the effects of aviation on emissions in the upper atmosphere, for example. The lata Environmental Review pointed out that there are at present some 20 different research programmes on the atmospheric effects of aviation being undertaken by airlines in conjunction with the aerospace industry and the scientific

With the possibilities of such new aircraft as a second-generation supersonic transport (5ST-2) or a subsonic Very Large Commercial Transport (VLCT) emerging in the early years of the next century, the need for total environmental acceptability of such aircraft

from the start is paramount. Tha economic henefits of becoming increasingly green are just as significant as the efits accruing from protecting the natural environment and improving the overall public relations image of aviation.

Many airlines and manufacturers are finding that hy being ohliged to think more deeply about the environmental implications of their processes and procedures they can actually save money.

For example, the recycling of waste materials or elimination of waste by careful usage can result in significant cost

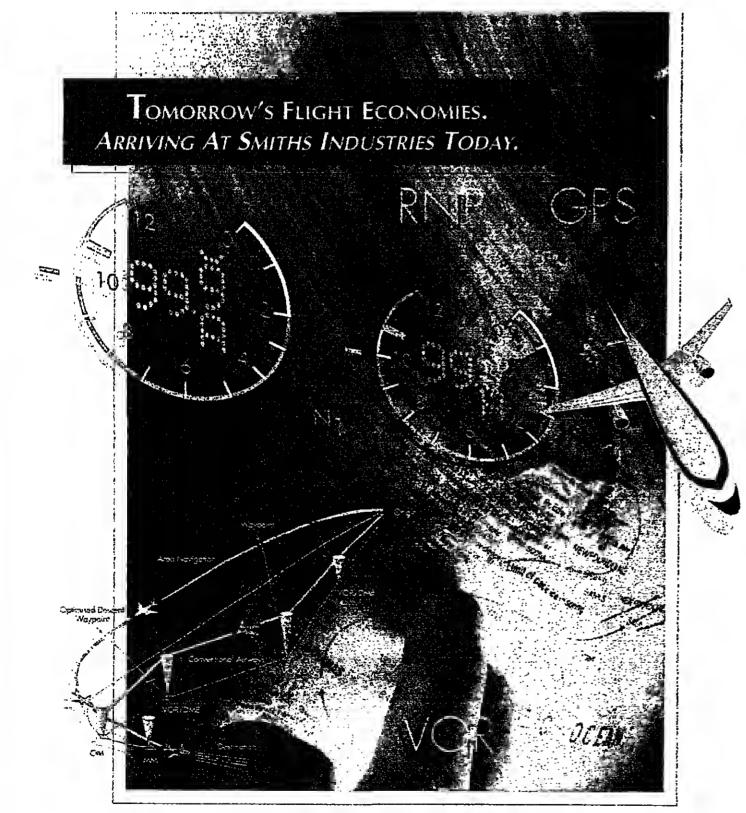
savings.

Next December, the Interna-tional Civil Aviation Organisation (ICAO - the aviation agency of the UN) will be holding a major meeting of its Committee on Aviation Envi-ronmental Protection (CAEP). The meeting aims to determine what further aviation environmental measures are either desirable or appropriate, in the light of increasing political and sociological pressures for such measures, especially in the developed countries of the

Much preparatory work for that meeting has been, and is being done.

It is too early to even suggest what may emerge from the meeting, but it is already clear that the growing external pressures themselves will require 8 continuing response from the airline and aerospace indus-

Michael Donne



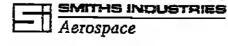
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issile operations 'Suitcase traders' are the

hidden strength behind a

resilient economy: Page 2

ecisions made in the

coming weeks and

months may well deter-

mine Turkey's future for many

years to come. The principal issue confronting Turkey is its ambivalent relationship with

The European Union's dead-

line for Turkey to carry out

political and economic reforms. required to complete a land-

mark customs union agree-ment in 1996, is fast approach-ing. Yet Mrs Tansu Ciller, the prime minister, fighting for

political survival, is struggling to deliver the changes the EU

Customs union is far more

than just a trade agreement. It is intended to bind Turkey

closer to Europe, strengthen-

ing its economy and demo-

cratic, secular political system

at a time when instability and

militant Islam are on the rise. Polls show that two-thirds of

Turks support strong ties with

Europe. Indeed, they are

taught to consider themselves as Europeans from an early age. Turkey's ultimate objec-

tive is to gain full membership

Yet many Turkish politicians

are convinced that some of the

European parliament's condi-

tions for ratifying the customs

union treaty strike at the foun-

dations of the Turkish repub-

lic. Created in 1923 by Mustafa Kemal Afatürk, modern Tur-

key's political system is based

on a secular, ethnically united,

Among the European parlia-ment's conditions are amend-ments to the Turkish constitu-

tion and the modification of

security laws, notably the anti-

terrorism law which makes any act that "threatens the

indivisible unity of the Turkish

state" a crime. President Süleyman Demirel claims that unlimited freedom

of expression could "lead to

polarisation in Turkey. Those

[groups] which have lived

together would then be unable

to keep doing so and Turkey would become ungovernable".

Europe, which many Turks

believe is acting out of anti-

reinforcing Turkey's powerful

Worse still; interference from

demands.

of the EU.

unitary state.

FINANCIAL TIMES SURVEY

TURKEY

Monday June 12 1995





A nation hovers at the door of Europe

Turkey must soob choose between taking the high road to growth, or to keep struggling along the low road which has meant instability and hardship in recent years. John Barham discusses the dilemma facing Prime Minister Mrs Tansu Çiller's government

nationalist instincts. What is seen as a patronising European patronising approach is further deepening resentment.

No issue divides Europe and Turkey more than the 11-year guerrilla war in mainly Kurdish south-east Turkey.

European public opinion is horrified by the carnage of a conflict that claims 10-20 lives a day. European governments say Mrs Ciller's determination to crush the Kurdistan Workers party (PKK) militarily can-not succeed. Instead, they urge a settlement with moderate Kurdish leaders to outflank the PKK. Without a political solution, they fear insurgency will only escalate, threatening Tur-

Turks believe that granting Kurdish autonomy would mean caving in to terrorism. Moreover, autonomy is equated with separatism and

In the spring it seemed that Mrs Ciller had found a way to satisfy both Turkey's increasingly truculent nationalists and the Europeans, On March 20, 35,000 troops swept into northern Iraq, supported by artillery and air power to hit PKK sanctuaries.

Although European governments protested, the incursion was wildly popular in Turkey and bolstered Mrs Ciller's nationalist credentials. She said the operation - which key's stability. However, an falled to crusb the PKK in overwhelming majority of northern Iraq - would failed to crusb the PKK in

strengthen her authority, allowing her to pursue political reform. Mrs Ciller said: "I have led the way in urging a relentless struggle for the complete defeat of the PKK. I must also lead the way in ensuring that we remove outmoded and unnecessary restrictions. I think the time is now close

ithough she has made no headway since then success in minor local elections on June 4 may belp her suppress a rehellion of hardline conservatives in her True Path party who oppose

when my work will bear fruit."

Customs union. Mrs Ciller's principal political objective, has, however, become hostage to party politics. If Parliament fails to approve political and economic reforms before its summer recess at the end of June, customs union will be seriously jeopardised.

Already, officials are cau-tioning that customs union may need to be delayed six months to July 1996. However, the EU's intergovernmental conference is to begin next year, probably to be followed by a new round of enlargement. Postponement could mean waiting until the next century for customs union, isolating a resentful Turkey on Europe's volatile southeastern rim. Should Mrs Ciller succeed in passing reform legislation at the last minute, as her aides -say she will, she may well have

ensured her re-election at the next general elections, due in the next 18 months. Yet relations with Europe are not the only critical issue

to be settled this summer.

Mrs Ciller's political fortunes will also depend on returning the economy, poised in precarious equilibrium, to sustainable growth. She bas displayed impressive crisis manag skills over the last 15 months in stabilising the economy. Growth is picking up after last year's record inflation and disastrous 6 per cent drop in (officially recorded) GDP.

Yet, here again, the embat tled Mrs Ciller has so far failed to overcome opposition to reform. Politicians who rely on big government for patronage,

not to mention opportunities for corruption, bitterly resist deregulation and privatisation. If, as seems increasingly probable. Mrs Ciller fails to ram

nomic crisis. Against this difficult background, great social changes are taking place in Turkey. Some 400,000 peasants are migrating every year to Istan-bul, which now has a population of about 7.7m. Many are Kurds, fleeing poverty and vio-lence in the southeast. The presence of a large, self-conscious Kurdish minority in

through urgent economic

reforms, Turkey could soon be

plunged once again into eco-

western Turkey may deepen Continued on Page 8

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The mountain of

privatisation has given

birth to a mouse: Page 4

A patriarch at home. an enigma abroad

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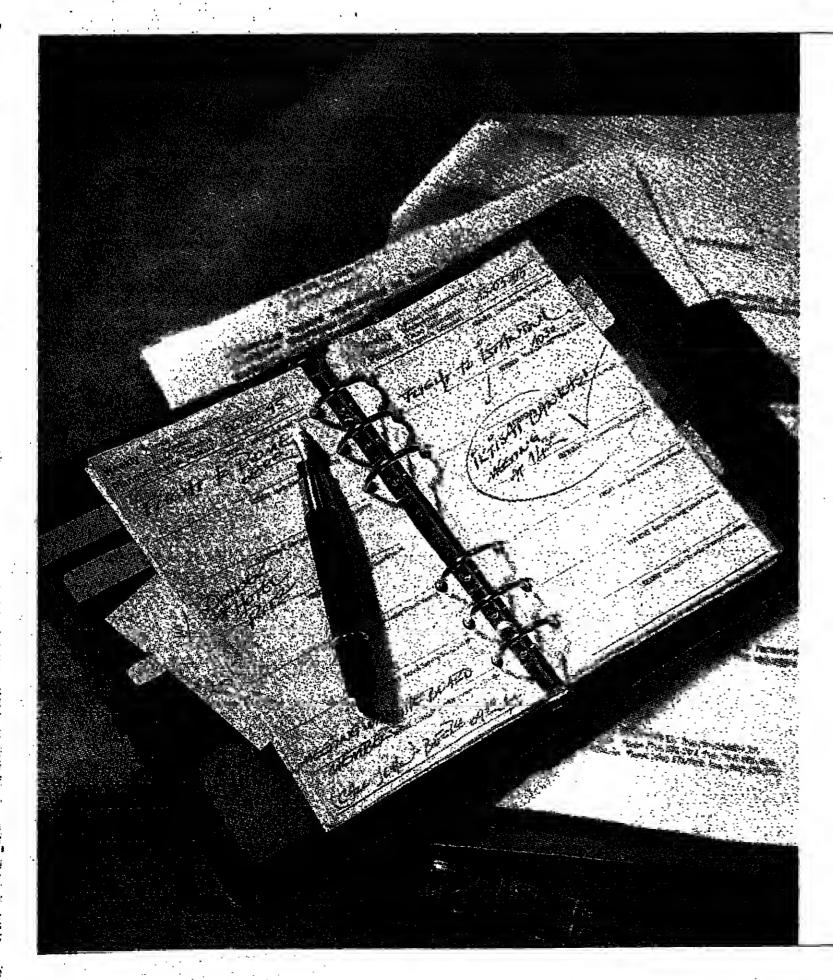
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Profile: President Süleyman Demirel

Ageing survivor puzzles the West

president of Turkey, thinks he

As he digests Europe's demand for political reform and greater respect for human rights as a condition for approving customs union, his reaction is one of indignation.

"What we are trying to get our friends in the West to understand is that you cannot confuse buman rights with the Kurdish question," he recently said. sitting in his spacious presidential office.

But, although Mr Demirel's comments may endear him to many Turks, it does little to improve understanding hetween Turkey and Europe. For, as the 71-year-old doyen of Turkish politics and former True Path party leader enters

Mr Süleyman Demirel, the his third year as president, his strategy is leaving many observers increasingly puzzled. Few would doubt that Mr

Demirel occupies a crucial place in modern Turkish history. First drawn into politics in 1961, when the deposed prime minister Mr Adnan Menderes was hanged by a military government, Mr Demirel has served seven times as prime minister.

Two of these terms were cut short by military coups. Indeed, during much of the 1980s Mr Demirel was banned from politics. But in 1991 he staged a remarkable comeba and after being re-elected prime minister became president in 1993 after the death of his former ally, and later rival, Given that Mr Demirel origi-nally backed Mrs Tansu Ciller as his successor and espoused a pro-European stance, he might now be expected to be pushing for the customs union at all costs. Indeed, it might be thought his own experience of

political repression could even

give him a certain sympathy

for those suffering under the

Turkish state. But, in practice, Mr Demirel's recent comments have taken on a hardline edge that have left many Western diplomats baffled.

He recently suggested, for example, that reform of the anti-terrorism law should be approved by the army, called for a referendum on the customs union - and reacted furiously to Western demands for

a non-military solution to the Kurdish insurgency.

"No one should ask that Turkey talk with these [Kurdish] criminals, as suggested in the West ... these terrorists are not after rights, but after land," he insists, flourishing a map of alleged plans for "Kurdlstan" - taken, from an unnamed geographical maga-

He has also called for immediate parliamentary elections. "I think the composition of the parliament is now very different from the tendencies of the

people," he says, Mr Demirel himself insists he is doing this for democratic reasons. However, other observers suspect he and his long-time ally. Mr Hüsamettin Cindoruk, are attempting to

Others point out that the lukewarm support he received from Europe when ousted from government may give him little reason to curry favour there. "If the West does not understand Turkey then Turkey will hreak off from the West anyway." he told a Turkish newspaper recently.

These comments may simply represent the views of an age ing patriarch, but they may also reflect a canny perception of a new political wind hlowing through Turkey. For, as the last 30 years have shown, the one quality that Mr Demirel undoubtedly has is that of a political survivor.



ident Demiret the 71-year-old doyen of Turkish politics, he served seven times as prime mil



Mrs Tansu Ciller: customs union could strengthen her position





Political storm clouds are gathering, reports Gillian Tett

Democracy comes under strain



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As seasonal temperatures begin to rise in Ankara, Turkey seems to be heading for a hot political summer. After a year in which the country has been plagued by parliamentary squahhling, the coming months could be crucial in setting the course of Turkey's The immediate issue is the

politics for the next few years. future of the customs union between Turkey and the European Union, which the Euro-pean Parliament says it will only ratify if Turkey amends its constitution, changes its anti-terrorist laws and releases six Knrdish MPs jailed for up to 15 years last December.

However, the passage of a political reform package through the Turkish parlia-

If the legislation passes and

customs union goes ahead, the fortunes of Mrs Tansu Ciller. the prime minister of the rullng centre right True Path party, would be strengthened. Indeed, in spite of Mrs Ciller's unpopularity, achieving the customs union could propel her to victory in the general election which must be held by

November 1996. But if the legislation, and consequently customs union, is blocked by bickering in her party and opposition from a vocal nationalist fringe in parliament, Mrs Ciller's position - and the cause of pro-Western politics in Turkey - would be seriously weakened.

Perhaps more crucially, any stalemate over Europe could also strengthen the hand of take Turkey on a radically dif-ferent political course.

At present the position looks finely balanced. Mrs Ciller's supporters insist that, as the summer progresses, the prime minister, a feisty, former economics professor, will goad the parliament into action. d, when Mrs Ciller has focused her energies - and considerable powers of patronage - on pushing legislation through parliament, she has

often been successful Furthermore, Mrs Ciller has a striking ability to work the

crowds and performs well on now faces almost as much television, which is becoming opposition from inside her increasingly powerful in shapcoalition as outside. President ing the political agenda.

"This situation is not a problem for Mrs Ciller, but an opportunity," argues Mr Emre Gönensay, a former lecturer at the London School of Economics and now Mrs Ciller's chief adviser. "This will make it clear to the public which political forces want to keep Turkey looking back - and show that Mrs Ciller is the only one pushing the country forward towards integration with Europe," he adds.

The government is also helped by the leaden performance of Mr Mesut Yilmaz. leader of the opposition Motherland party. He com-plains that "the government Motherland government".

Even Mr Gonensay's optimism cannot conceal, however, the political deadlock which has almost paralysed parliament in recent months. On paper, at least, the ruling coalition looks healthier than last year. In February the social democratic SHP, which had previously been in coalition with the True Path party, joined forces with another left wing group, the CEP, boosting the number of deputies in the

Government coalition. But in practice Mrs Ciller

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by military coups.

Workers party (PKK): "Youths of 17 years ald who hear this

the mountains." But the real problem lies not in the arcane details of the current political power hroking, as broader problems stemming from Turkey's shallow history of democracy - a history which has been interrupted three times since 1960

will take up arms and head for

Turkey is still in a transition phase - there is a real eneration gap and a shortage of good, mature political leaders and parties," says one dip-lomat based in Ankara.

One indication of this is the degree to which the political squabbles of a tiny coterie of long serving politicians continue to dominate the parliamentary scene. However, another is the factionalised and highly local nature of party politics, which are often

alities as policy differences. The centre right, for example, has generally received about 60 per cent of the vote in elections, but is split between the ruling True Path group and Motherland party.

Meanwhile, the left wing vote, which garnered about 25 per cent of support at the last election, is also divided between two (formerly three)

eparate groups.
In this confused spectrum, the only parties which are clearly differentiated are the neo-fascist Nationalist Action

Party (MHP), which received

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about 9 per cent of the vote in the last general election – and the Islamic Welfare party, or Refah, which now controls about 28 of the country's 76 city councils.

Of the two, it is the latter which is currently causing most alarm among Turkey's middle class, who fear that Refah's recent success is signalling a drift away from prowestern secularism. Recent opinion polls, for example, have suggested that Reich corrently enjoys at least 20 per

cent of the votes.

But at present Refah is using moderate language. "All we want is freedom for religion. Although we are religious people, we talk less about religion than the other parties," insists Mr Abdullah Gol, vice chairman of Refah and an MP.

And although an anti-European backlash in the country may well emerge if the customs union falls through, for the moment Refah's recent success appears to owe as much to its anti-corruption stance and concern for the poor as any overtly Moslem

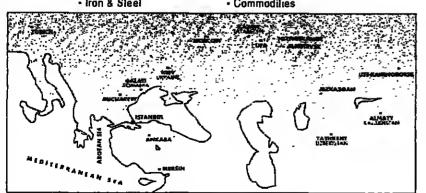
Indeed, as Mrs Ciller gears up for the customs union battle, her most immediate challenge is not staving off the threat of some fundamentalist bogeyman - hut rather coping with the more mundane political squabhling that has been leaving Turkey's political sys-tem all but basestrung over the last year.

PRODUCER OF 100% ACRYLIC YARD FOR CARPETS -QUALITY FOR ALL PRODUCTS IS GUARANTEED BY THE ERexpression must bave a limit. Separatism and treachery are Islamist and nationalist par-DEMOGLU CARPET & ACRYLIC YARN MANUFACTURING CO. being presented as freedom of expression." Another True Path backbencher, Mr Yaşar ment is also throwing up lonties, which oppose the union. and other opposition parties Address: ERDEMOĞLU A.Ş. ger term questions about Tur-These seem poised to boost persist in the claim that the key's ability to act as a mature their position at the next elecroots of the economic disaster P.O.Box 191 27001 GAZIANTEP - TÜRKİYE Tel. 90 -342-3280041 (10 Lines) Fax. 90-342-3280197 democracy and its future polita trend that could yet of today lie in the previous Topcu, claims easing the antiterrorism laws would only

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TURKISH PETROLEUM CORPORATION INVITATION TO TENDER

For

Developing K. Marmara Offshore Gas Field By Means of a Single Platform Connected to an Onshore Process Plant By Pipeline

Turkish Petroleum Corporation (TPAO) plans to solicit tenders from the qualified companies for the design procurement, fabrication, installation, hook-up and commissioning of a minimum facility unmanned offshore platform which essentially consists of wellheads and production manifold, and a subsea pipeline for the K. Marmari Gas field in Marmara Sea, Turkey,

The offshore gas field is at 40 meters water depth, 2.5 kilometers away from the shore. The field will be produced from 3 wells drilled from the same location. The wells are completed with mudline susp abandoned with cement plugs. Reentering and tie-back of the existing 3 drilled and temporarily abandoned wells are included to the work scope. Processing shall be made oushore, and is not included in this scope. The work will include:

a. Engineering

d. Load Out and Sea Fastening and Offshore Tow

Süleyman Demirel. a former

True Path prime minister and

party leader, is openly agita-

ting against her. Mr Hüsamet-

tin Cindoruk, the parliamen-

tary speaker and Mr Demirel's

old ally, nurses his own ambl-

Meanwhile, a block of True

Path deputies have indicated

that they will vote against Mrs Ciller on the crucial political

reform package. They reflect widely felt resentment against

interference from Europe -

and an intolerable concession

Path MP, says "freedom of

encourage the Kurdistan

Mr Ertekin Durutürk, a True

to the Kurds.

tions to be prime minister.

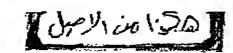
e. Installation of Structure and Pipeline f. Reentering of the wells

g. Testing, Precommissioning and Commissioning
h. Mobilization and Demobilization of Marine Vessels and Yard Facilities.

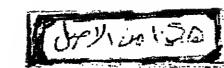
The Work is expected to be completed within one year following the contract award date.

Only those companies of JV's who have experience on similar projects involving engineering, procurement construction, installation and commissioning of offshore platforms and pipelines will be consider The reeder documents shall be available at a cost of 1000 USD. Interested companies are asked to fax their letter of intent to the below address before June 23, 1995. These companies will be contacted when the tender doc

made available. Address: TPAO Üretim Grubu Baskantlgi M. Kemal Mahallesi - 2 Cadde 86 Ankara - 06520 - TURKIYE Fax: 90-312-2869017



TETARS TO



TURKEY 3

Visible trade balance

vate sector.

Overstaffing, poor manage-

nent, corruption and political

interference are these compa-

nies' basic problems. If their

performance were raised to

that of the private sector, GDP

could be increased by 6-8 per

Privatisation, though, is

making agonisingly slow prog-

ress (see report, Privatisation:

unfulfilled promise, page four).

ability to stabilise the economy

last year following the simulta-

neous balance of payments, currency and financial market

crises was little short of mirac-

ulous. Supported by a \$742m,

14 month standby loan from

the IMF, the government set

itself highly ambitious perfor-

It cut the budget deficit by 59

per cent in doliar terms to \$4.89bn in 1994, a remarkable

achievement. Although the

public sector borrowing

requirement dropped by a

third last year, it is still very

Retail price inflation tum-

hled to 94 per cent in April

from a record 126 per cent at

the end of last year, although

few expect the government can

lower inflation to its targeted

Nonetheless, the treasury has successfully stretched out

maturities on its bonds to one

year from three months and

interest rates have fallen.

40 per cent in 1995.

high at 8 per cent of GNP.

mance targets.

However, the government's

1,250

-1.500

courists visiting the his toric quarter of Istanbul are adding a new place to their itinerary, the "Russian Bazaar" In a few narrow streets close to the famous covered bazaar. Turkish mer-

chants_ply Russian and East ern European "suitcase traders" with items ranging from jeans to plastic goods. Simple and cheap, these products are the lifeblood of Turkey's underground economy. "Suitcase traders" - so

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Refab a

called because they smuggle cers in bulging suitcases - are believed to spend billions of dollars a year in Turkey, although of course nobody is

What is certain is that the unrecorded economy has assumed a central role in the Turkish economy. Some analysts say it is as large as the official economy, although most estimates are lower. All are agreed that without the black economy, Turkey would now be sunk in a very deep

Although the economy shrank hy 6 per cent last year and wholesale inflation hit a record 150 per cent, the streets of Istanbul were choked with traffic, not rioters.

Turkish hankers suspect that, including the underground economy, Turkey actually grew by about 2-3 per cent last year. The OECD in its annual survey of the Turkish economy expects 2.8 per cent growth in 1995, but local analysts think growth will be nearly twice as much.

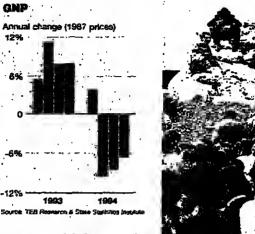
This hidden strength helps explain the extraordinary resilience of Turkey's economy.

ast year, the current account swung to a surolus of \$2bn from a deficit of \$6.38bn in 1993 - helped by a two thirds drop in the trade deficit to \$5.16bn. Contrary to many expectations, the treasury was able to make service payments on its \$80bn domestic and foreign debts on schedule. Instead, the central bank reserves rose steadily to a record \$12.81bn in May.

Mr Tom Reichmann, the International Monetary Fund official supervising Turkey's standby programme, told an Istanbul conference "this was a remarkable feat, especially as international markets had almost turned away".

The underground economy is also a source of perverse national pride, because it shows a Turkey wealthier and The unofficial economy plays a crucial role

Bulwark against recession



more successful than the dire official statistics indicate. But the under-employed, the poor and unskilled urban workers have undoubtedly suffered great hardship in the past 18

Furthermore, as one foreig economist points out, "the only thing an underground economy the size of Turkey's really shows is that the government lacks control"

Tax evasion is rampant one banker says his corporate clients evade 90 per cent of their taxes. As a result, Turkey has the lowest tax revenues, as proportion of GDP, of any OECD economy. This makes it hard to finance government spending adequately, leading to large budget deficits, high interest rates and persistent heavy inflation.

Yet the government lacks political determination to push through urgent changes to the tax system. It only introduced tax numbers this year. Another critical area of

weakness is the social security system. Populist politicians have pushed retirement age as low as 38 for women and 43 for men. The government is struggling to raise retirement ages to 60 and 65 respectively. The opposition immediately came up with a derisive slogan for the reforms: "Retirement in the grave.

For the time being, then, social security reform is effec-



Crowds throng a fruit and vegetable market in Istanbul Although wholesale inflation hit a record 150 per cent last year, the city's streets were choked with traffic, not rioters

tively blocked, even though the system's deficit looks certain to increase by over half from last year's \$454.6m. Collection rates at the various social security funds range from 70 per cent to a mere 10 per cent. Far more serious are the def-

icits of the state companies. State company losses are one of the largest contributors to the public sector borrowing requirement In 1994, their deficit was equivalent to an estimated 2.6

per cent of GDP, while the government had to transfer aid worth a further 0.65 per cent of GDP to state companies, according to the OECD Almost as pernicious is the state enterprises' low produc-

tivity. State companies' value added per unit of capital is probably only one-third of private companies'. Lahour productivity is estimated at 30-40 per cent below that in the pri-

The economy is picking up speed again as the middle classes satisfy their pent up demand for consumer goods. However, this improvement is illusory. A US banker, based in Istanbul, comments: "Turkey will enter the summer in a really delicious situation. But in the autumn, when people are back from their holidays, they will find that inflation is coming up. They'll see there has been no action on structural reform. [Government] spending will be up. The lira will be looking really overval-

It is frustrating to see a government able to impose stringent short-term stabilisation policies yet incapable of attack-ing the root causes of its debilitating economic problems. One weary senior Turkish executive says: "There has been a consensus since the 1980s on the direction of the economy everyone knows what the probiems and solutions are

If Turkey's custo.ns union with the European Union is finally approved this autumn. it would give a further impetus towards market reform and responsible policy-making.

bere are, however, few observers in Turkey who remain optimistic about chances of rapid change. An Istanbul business leader warns that structural economic reform is equivalent to a "social transformation. [These] do not come easily. It will take at least a couple of years to attain stability and transform

the state." But Turkey cannot afford to waste time. International competition is increasing alarmingly, especially from Asla's powerful new economies. Local and inward investment is insufficient: Turkey received just \$432m-worth of foreign direct investment last year.

Widening wealth differences in a society that is both grow-ing and urbanising rapidly may portend social upheaval in future years, especially if the government fails to provide strong, stable economic growth by adopting radical reforms.

Unlike Latin America, which suffered similar economic problems, Turkish politicians still see few electoral gains from tough economic reform. Until voters rate the trauma of reform to be less threatening than chronic instability, their leaders will surely prefer inac-

John Barham

Europe's growing concern over human rights

Confusion of issues

ot many people in Europe would profess to care much about the Council of Europe. But when the pan European human rights body castigated Turkey for its human rights situation last April, the events prompted outrage in Turkey. Popular newspaper ran headlines on the story. Television channels gave coverage And politicians dennunced Europe's "meddling."

In any other circumstances, this reaction to a relatively toothless committee might nave seemed simply ironic. But as preparations continue for Turkey's entry into

acustoms union with Europe. Turkey's record on human rights and democracy is casting a long shadow over its foreign policy particularly with Europe.
The European parliament

has made political reform a condition for ratifying a customs union treaty. In particular its demands include the abolition of clause eight of Turkey's anti-terrorism act, which makes It a crime to spread "propaganda (supportingl activities of terrorist organisations which threaten the indivisible unity of the Turkish state". Judges in state security courts interpret propaganda" so widely that any speech, comment or article discussing Kurdisb rights becomes an offence punishable by six months to

two years in fail. The European parliament also wants amendments to Turkey's authoritarian 1982 constitution, written by the country's then military rulers. that limit basic freedoms. MEPs also want six Kurdish MPs jailed for up to 15 years released. However, the problem is that human rights reform has little support in Turkey outside a circle of Turkish intellectuals, and a ew political groups such as the newly formed New Democracy Party. Indeed, respect for human rights in

deteriorating. Public debate about the issue is difficult for two reasons. The first is a perception

Turkey actually appears to be

that Europe's criticism is sim-ply a camouflage for anti-Mos-lem prejudice. Europe's inability to stop human rights violations against Bosnia's Moslems, for example, is frequently cited with indignation by Turks. Meanwhile, many Turkish officials have taken US reluctance to criticise Turkey's incursion in March into Northern Iraq to attack Kurdish guerrilla sanctuaries as tacit US support for a hardline stance on domestic poli-

But the second problem is that the sheer breadth of human rights violations now occurring in Turkey means that issues of terrorism, ethnicity and freedom have become confused in the debate - leaving many Turks assuming that human rights reform is tantamount to mak-

ing concessions to terrorists. In practice, the problem is broader than a terrorist matter. Torture of common criminais to extract confessions, for example, persists. Religious minorities, such as the Shia Moslems, are harassed and unable to exercise full religious freedom.

urkey's Shia community practises a less strict form of Islam, bringing them into often violent confrontation with a conservative and increasingly assertive Sunni majority.

There are 166 writers and politicians in prison serving long sentences for "separat-ism". Six Kurdisb former MPs were jailed for up to 15 years in December for advocating Kurdish rights and holding meetings with the Kurdistan Workers party (PKK) guerrilla movement. Human rights campaigners themselves are particularly vulnerable. Twelve members of human rights organisation have been killed since 1991, 100 jailed or arrested and 14 regional branches forced to close.

But the focus for outside indignation is the state's treatment of the Kurdish minority, estimated to account for between 15 and 30 per cent of the population. Ethnic unity is perceived by

stone of the state. Separatism or affirmation of a separate identity are equated with trea-

Meanwhile, the government's brutal suppression of the PKK is accelerating. South-eastern Turkey is under emergency rule, giving security forces free rein to terrorise local populations as well as attack the PKK.

The Turkish Human Rights Association says there were about 1,000 alleged torture cases reported last year, some 600 disappearances and deaths in detention, and 1,500 villages destroyed by security forces, which are using a scorched earth" policy to flush out the guerrillas.

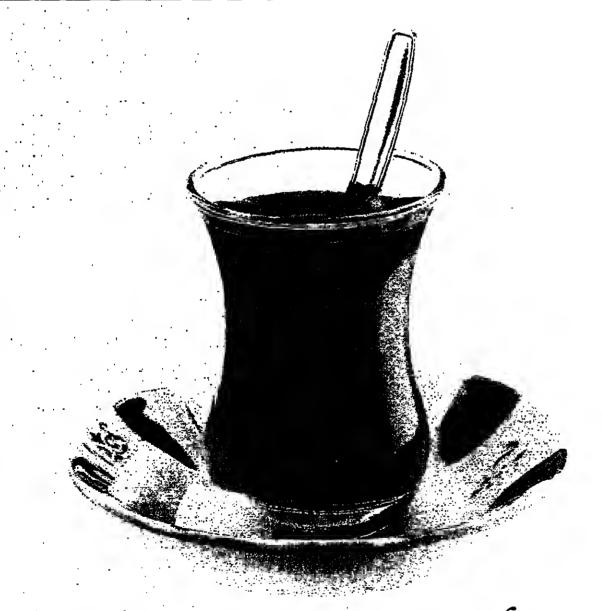
The guerrillas are also guilty of human rights abuses and moderate Kurds are careful to distance themselves from the PKK. But many observers believe that the army's brutality is simply fuelling Kurdish resistance. "If you keep arresting MPs

and stopping free expression you take away any democratic means of resolving the problem," says Mr Feridon Yazar, a Kurdish lawyer act-ing for the Kurdish MPs jailed last year. Mr Yazar himself is also facing jail.

Faced with this hreadth of abuses, removing article eight is unlikely to change the situation significantly - though it might lead to the release of some 150 prisoners of conscience, Indeed, a complete overhaul of Turkey's legal system would be needed to establish the human rights and democratic standards that Europe demands. The Human Rights Foundation says article eight is just one of 154 articles concerning freedom of expression in various codes in Turkey.

But with so many MPs apparently refusing to amend article eight, such changes seem remote. Unless they can be persuaded otherwise, entry into a customs union - Turkey's single most important foreign policy objective - will

Gillian Tett



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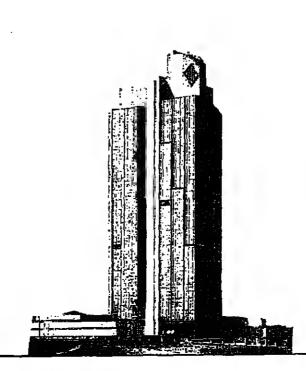
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MAINTAINING Momentum

The dynamism and stability of Akbank have never been more evident than in 1994. Akbank is the best capitalized bank in the private sector in Turkey. Strong equity, loyal customers and prudent banking policies laid the foundation for Akbank's success in 1994. Profitability continued to be the strongest in the sector, even though the year was widely acknowledged as the most difficult in Turkey's recent economic history. Akbank's high level of performance earned it the Euromoney award as the best Turkish bank for the second year in a row. The figures for 1994 tell a true story: in a year when size and liquidity were determining factors in performance, Akbank emerged stronger than ever.



BALANCE SHEET (US\$ 1000)	31/12/1994
ASSETS	
Cash and due from banks	1.018.369
Reserve requirements	271,777
Loans	1.414.607
Overdue loans	287
Participations	76,175
Premises and equipment	106.414
Other assets	241.800
Yotal Assets	3.129.428
LIABILITIES	
Deposius	2.222.174
Borrowed funds	212.698
Other Liabilities	320.670
Total Liabilities	2,755.642
STOCKHOLDERS' EQUITY	
Capital	103,394
Reserves	117 196
Profit (after taxes)	153.196
Total Stockholders' Equity	373.786
Return on Average Equay	61.56%
Return on Average Assets	6 699%
Capital has been increased to US \$ 160,000;	as of February 1995

Risks with a Latin American rhythm

It might seem hard for Turkish banks not to make fortunes when real interest rates fluctuate between 20-60 per cent a year. The treasury's appetite for cash and the central bank's aound money policies have driven interest rates to Latin American levels.

Yet, as every banker knows, high reward implies high risk, and the risk of operating in financial markets in Turkey has become very high. A US banker says 1994 was "the first time that market participants realised what risk really is". Another says Turkish bankers are "more aware and experienced. They discovered that the market can also mean devaluation and bank failure" as well as growth and profits.

A heavy devaluation, collaps-ing financial markets and Turkey's loss of its investment grade credit rating in the spring of 1994 hit financial players very hard. Even the assets of Garanti Bankasi, probably Turkey's best banking group, suffered a drop of 27 per cent in dollar terms to \$2.54bn last year. Net income dropped by a fifth to \$166m. Other banks were hit far worse and three minor houses folded (leaving 75 international hanks with dud loans) and Garanti took over e fourth that was on the verge of collapse.

This year, though, the story is one of recovery, consolida-tion and tentative expansion as the economy pulls out of the depression of 1994. Banks are reporting a recovery in consumer finance, loans to the corporate sector, and trade finance. Treasury operations still remain by far their strongest source of profit. An estimated 65-70 per cent of bank profits came from trading government bonds in 1994.

Although Wall Street credit rating agencies seem unlikely to upgrade Turkey's B rating for some time, the government's international cost of borrowing is falling sharply. It paid 350 basis points over Libor for a \$500m, two-year loan package in the spring. Now it would pay a spread of perhaps only 100-150 basis points.

Still there is a lot of unfinished business in the financial sector. Unlike most industrial companies, grown lean and mean by recession, the banking business is not healthy.

Recklessly mismanaged state banks control 60 per cent of the banking system, distorting the market. The government's full deposit guarantee scheme - introduced et the height of the crisis in 1994 - may be encouraging risky lending by weak banks that would otherwise not be able to fund them-

Retrenching still has a wey to go, despite beavy cutting last year. Banks rely too beavily on trading for profits. their problems. It allows banks ingenuously to report nominal increases" in income when inflation is actually eroding

One reason banks avoid reporting a loss is fear that this would trigger a run. because clients balk at keeping money at a loss-making bank. Poor accounting and supervision has allowed moribund pri-

JOHN BARHAM finds a new sense of realism among bankers and financiers

vate and state banks to sur-

Mr Yaman Törüner, central bank governor, who shares responsibility with the treasury for monitoring banks, denies that supervision is a serious problem. Yet he does neck is political. The decision on closing banks is made by the government." And no government, particularly one as embattled as Mrs Ciller's, likes

closing banks. An international banker says the government should "let some more banks go under. There is no risk of systemic ffailure now. But the politicians are interfering with banking regulation."

As a rule of thumb, most international bankers agree that large state banks have very serious structural problems - dud loans to other public sector organisations that are booked as performing, excessive staffing, political interference on a grand scale, corruption. Large private banks are considered generally sound, although one London banker says 'things can move so quickly in Turkey that you

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exposure even to a blue chip bank can be". He says medium and small private banks are "bad news. Most are technically bankrupt." Foreign banks tend to be the best-run and most profitable of them all. Citibank, which has never lost money in Turkey, has no loan es at the moment.

Mr Anjum Iqbal, general manager of Citibank in Istanbul, says the bank decided in 1994 to start a three-year expansion programme broadening the range of products away from corporate and investment banking to consumer banking aimed et npper tier individuals. This would make Citibank the only international bank with a consumer banking franchise in Turkey. It also aims to be more active in capital markets.

The Netherlands' ING Bank is also expanding in Turkey with a planned \$22m project to set up e full service branch office to do commercial lending and investment banking. Its Istanbul operation would be part of a wider play on central Europe and the Middle East. Bankers do not hide that

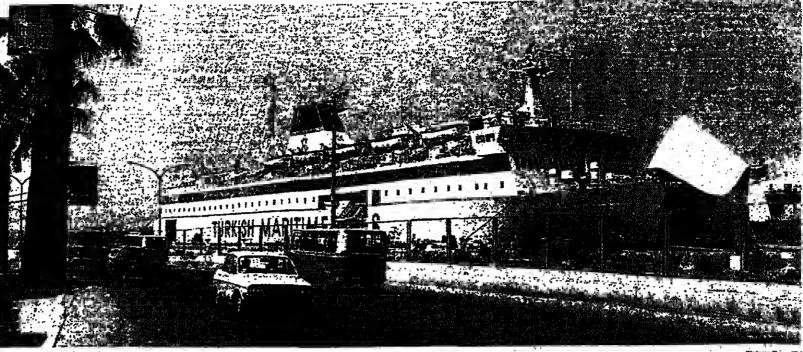
they contributed to this spring's \$500m loan for the treasury put together by Citibank because the government let it be known that approval for future business deals in Turkey - in infrastructure, privatisation, expansion of existing franchises - would depend on support for the loan.

Turkey has 71 banks, of which 21 are foreign-owned. Not all these banks can survive. It would not take a nightmare scenario to force a substantial reshaping of the system. Reduction of the 100 per cent deposit guarantee would lead to greater differentiation of risks by the market, forcing the dodgier players out of the market. Public sector reform would cut interest rates, again weeding out the weak. Falling inflation would further reveal banks' health.

The day of reckoning may still be some way off. But the survivors of a future shakeout will probably have to face greater competition, particularly in investment banking where big money is likely to be made in corporate finance. project finance and privatisation. There are some straws in the wind. Companies are

resorting more and more to the stock market to raise capital, although few groups have plucked up the courage to sell more than small minority

Of course, all this lies in e probably distant future. Yet as Aclan Acar, president of Bank Ekspres, seys: "Banks must strike up long-term relations. For a temporary period you can make money from treasury [operations], but at the end of the day, you end up with your old corporate customers".



A roll-on-ro i-off ship at the port of izmir, in western Turkey

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STATE AND A

Modernising the infrastructure requires more than money, reports John Barham

Penalty for disorganisation

Turkey will probably be hit by phone lines are overloaded The road network is crumbling. Istanbul, one of the biggest cities in Europe, has to ration water.

Inadequate infrastructure is emerging as one of the most serious constraints on Turkey's future growth. Although the government itself is unable to finance infrastructure projects, money is not a problem. Foreign governments, private banks and companies and organisations such as the World Bank all have a lot of financial backing available for infrastructure projects.

Yet the government seems incapable of establishing the necessary legal and regulatory framework. Turkey developed the Build-Operate-Transfer (BOT) model for infrastructure projects in the 1980s. However, not one single BOT

project has yet been completed in Turkey because of legal challenges, the bureaucracy's hostility to private capital and inability to negotiate adequate

Neither has privatisation

made much headway. The government has carried out some piecemeal sales, like the privatisation of electricity distribution on the Asian side of Istanbul. But this controversial sale is criticised even by government officials for inadequate

regulation. Still, the impending energy crisis is a business opportunity. Local and crisis international companies are scrambling to build generating capacity for their own use and to sell excess power to the grid. The Koc group. Turkey's leading conglomerate, is building a \$40m unit, financed by the World Bank's International Finance Corp.

Citibank is backing a \$190m cogeneration project for a 14.000-unit housing project in Istanbul. Other groups plan projects that would provide power exclusively for the public network.

Although a World Bank executive says this is risky, because investors would be vulnerable to an unpredictable government, he says these projects could be highly profitable simply because

Electricity production 60,000 ----

1989 90 91 92 93 94

40,000 **

20,800 -

demand for power is rising so sharply.

Demand for power increases almost irrespective of the economy's erratic performance. Rapid urhanisation, a fast growing population and a big underground economy all place heavy burdens on the power system. Last year, electricity production grew 6 per cent, even though the economy shrank by 6 per cent Desplte this, TEK, the

government'a electricity generator, lost \$1bn last year, mainly through overstaffing

The interminable debate over privetisation and BOT may actually be preventing action. Mr Anders Ericsson, Turkey country manager at ABB, the Swiss-Swedish power engineering group, says "these are being taken as an excuse not to make decisions in other For instance, about 40 per

cent of Turkey's electricity generation capacity is out of service, mainly for lack of maintenance. ABB reckons it would cost \$100m to make the existing system fully available, much less than building new capacity. Even simple repairs could boost generation by 10

Nonetheless, the government wants to hulld more capacity. It has approved 15 power projects to be built on a BOT basis worth \$5bn.

Better planning would also help. A diplomat says there are 4.000 unfinished infrastructure projects in Turkey. Most were

by local politicians, but have been stopped for lack of finance. The government lacks political will to rank projects by order of priority and finish

Successive governments have also been mesmerised by prestige projects. Some have a measure of economic justification, such as the giant GAP hydroelectric and irrigation project in southeastern Turkey. Others, for example the incompleted \$9bn motorway linking Istanbul and Ankara, are more questionable. A mooted third bridge across the Bosphorus is

little more than a fantasy. There is little political glory in maintaining or completing existing projects. Serious planning will only come when consumers begin punishing politicians for hlackouts and potholed roads. This may be happening already. If the new Refah administration in Istanbul succeeds in overcoming the city's chronic water shortages, its hold on power could be virtually

Prospects for mass privatisation remain tantalisingly elusive

The mountain has given birth to a mouse

This is meant to be the year that privatisation finally gets underway. Optimism began rising at the end of last year, when the government rammed a long-delayed framework privatisation law through parlia-ment and overcame legal challenges to sale of the

telecommunications system. Once again, though, the brave hopes for an aggressive multi-billion dollar programme nearly every year since privati-

ning with \$5bn

this year. So far, it has been barely \$70m smell-ticket operations.

And almost all these deals have either unraveled or are in jeopardy. No wonder the oppo-sition sneers that Mrs Ciller will not even meet one per cent

of her target.
Reshuffles of senior personnel only make things worse. In
May, Mr Ali Şvki Erek moved from the privatisation ministry to transport, shortly after appointing Mr Ufuk Söylemez as the third head of the privatisation agency since passage of the privetisation law last

Inevitably, each new team takes time to settle in and establish a new set of priori-

Prior to his departure from the privatisation ministry. Mr Erek dismissed complaints of procrastination, saying "we have already achieved in a lot in the last 145 days [since passage of the privatisation law) and there will be even greater progress in the coming two to three months".

However, his record is uninspiring. This year, the government has controversially sold the Karabük steelmill, an overstaffed lossmaker, to its employees and management for a nominal one Turkish lira equivalent to one-four hundredth of a US cent. However, the new owners could fail to turn the company around -

despite big wage cuts and a restructuring plan – landing it back in the public sector.

The government had to cancel the sale of its Et Balik chain of fish and meat stores to employees virtually free of charge in the face of angry opposition from public opinion. Mr Erek says "this was not a

wrong decision but public opinion was opposed and so it was managers autonomy to restruc-ture it." Et Balik loses \$1.4m a

secure suffi-

JOHN BARHAM cient prior eble to raise describes the \$60bn sale financial backof state assets that so

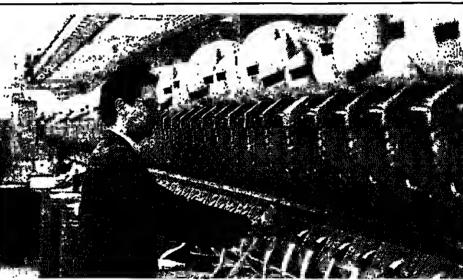
ing. Still, there is e few far has raised only \$70m at least one - deal should sail through: the sale of the state's 51.67 per cent stake in Eregli, a well-run and profiteble steelmill.

Eight local and international groups are bidding for a 30 per cent stake, with the remaining 21.67 per cent to be sold through a private placement or global offering later in the year. However, bankers are unsure that the government can meet even balf its \$5bn tar-

A World Bank analyst says Turkey's problem is not merely execution, but strategy. It should start by selling large companies instead of small

The Turkish government has taken a cautious line because public opinion is hostile to privatisation, fearing job losses. An executive at a blue chip Turkish group says: "The authorities are not successful in explaining what privatisa-tion is and how it would affect society and the economy. People do not understand what it

Worse still, there is widespread concern over lack of transparency. Media reports and complaints in the business community about corruption, favouritism, asset stripping by buyers, and ad hoc bidding risk discrediting the very con-



Textiles is one of Turkey's strongest industrial sectors

canceled. Now we have changed strategy and given are fading - just as they have **BANCI** sation was first mooted 10 years ago. The government is still clingmonth on sales of \$3.6m. Other flops include the caning to its aim of selling \$60bn-worth of state assets, begincellation of the sale of Petlas, e tyre company, to a local buyer

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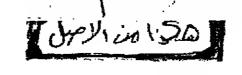
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Perils of standing still show up

Turkey's business class is a two-thirds of listed companies' survivor. Industry responded to last year's dramatic down-turn with impressive speed and tenacity. Although the private sector suffered a 12 per cent drop in output, recovery is already under way. Companies cut working hours, eliminated iobs, hacked at costs and switched aggressively from domestic into highly competitive export markets. But most

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ohn Barham

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still managed to turn a profit. However impressive their crisis management, companies cannot afford to take their eyes off fundamental issues. The challenges facing industry are like those facing companies in many other countries; but they are more urgent. These include raising investment, finding new capital, developing new markets at home and abroad, tightening management, improving productivity.

Mr Bülent Eczacibasi, vice-

chairman, of the eponymous pharmaceutical company and a prominent husiness leader. says big companies have to invest. If they stand still they will fall. They need to keep market share, export more, increase technology, even if investing does not make sense in mathematical terms".

Large groups can look abroad for cheaper, longerterm capital. Mr Anjum lqhal, Citibank's general manager in Istanbul, says "each and every one of our customers is investing. Even in 1994, many of them scaled down but they did not stop".

However, his clients are large, hlue chip local groups and multinationals. Few Turkish companies can afford the luxury of long-term planning m a highly volatile economic climate. They are vulnerable to interest rate shifts and zigzagging demand in their markets. often very local opes. Banks do not have long-term capital available, especially for small, risky companies.

Turkey is suffering from years of under-investment. Economists agree that an erratic economy discourages saving and investment. The corporate sector is highly liquid, which allows it to make more money on financial markets than on operations. Tressury transactions contributed making a strategic commit-

profits last year, which explains why companies stayed in profit even though trading conditions were terrible.

Mr Ishak Alaton, chairman of Alarko Holding, one of Turkey's hig construction and engineering groups, complains that "husinessmen have become rentiers because the government has made conditions for investment so bad". This year he is investing just \$10m in Turkey.

Few companies plan large expansions or new green field plants. Instead, investment tends to be concentrated in existing facilities: de-bottlenecking, installing more advanced machinery, training staff, introducing new prod-ucts. The approach of customs union, which will allow EU goods duty free access to the Turkish market in 1996, and falling tariffs against third country imports bas brought an added sense of urgency.

Nobody is sure what effect customs union will have on industry. Bankers say it will increase investment by foreign companies. Many say they expect mergers and acquist tions once the treaty is ratified. However, a receot poll of Turkish companies showed that only 60 per cent feel ready to compete with EU imports.

A European Commission paper noted that textiles, one of Turkey's strongest industries, contains strong corpora-tions using state of the art technologies to produce high value added goods that should feel little impact from customs

There are also many weak, inefficient companies producing low quality textiles that could suffer badly. And some sectors, such as cars, believed to be the most vulnerable to competition, are investing heavily in anticipation of tougher market conditions. Still few competitors under-

estimate the resilience and agility of Turkish companies. For instance, last year's rapid switch into exports was impressive, even if it was motivated by a desperate bid to cover overheads when domestic demand suddenly collapsed. However, companies are

ment to exports. The Koç group, Turkey's higgest conglomerate, is planning to dou-hie exports to \$1hn this year, up from \$850m in 1994 and increase group profits hy 10 per cent over 1994.

The demands of a more competitive business environment are revealing weaknesses in management that previously went unnoticed or were of secondary importance. A US banker says "Turks get very high marks for entrepreceur-

Manufacturing Industry production index*

Change over some period of previous year

1993

ship, but tow marks for mannent succession and planning because they are still on a family-owned basis."

Although large companies are adopting the latest international management techniques, a tradition of tyrannical ownermanagers and fearful employees limits the effectiveness of concepts like empowerment. However, as in many other middle income developing countries, the next stage in the development of Turkey's companies will be the rise of the professional manager working in a quoted company where ownership is more diffuse.

This trend is already beginning to make itself felt, particularly as family companies begin facing succession problems, inadequate capital structures and rising competition. Nearly all successful Turkish companies are cash-rich and debt free. This is because they tend to underinvest and because they are highly profitable, since protection has lim-

Robust financial health will

allow companies to raise considerable amounts of deht and equity capital once investment conditions improve. Owners

control. Koc, which cootrols Tofas, Turkey's largest car maker, is committed to reducing its stake by selling shares to raise capital for investment in the company.

are beginning to accept ceding

At the same time, the government's ability to cootrol business by distributing contracts or manipulating regulations is also receding. Executives felt that the drift and disorganisation in Ankara that has allowed the economy to spin out of control is almost a blessing in disguise. Mr Sedat Alogiu, head of the IKV, an economic development foundation, says the government "does a lot of stupid things. But it does not affect me very much. Control is definitely decreasing. In that respect Turkey is closer to a market economy than ever before."

This is not an unmixed blessing. Ankara, the administra-tive capital, and Istanbul the husiness centre, have moved

"Business has very, very little influence in Ankara, Tüsiad [the employers' association] is very good at making newspaper headlines but in lohhying and direct contacts with politicians it is very weak," says one executive. "Politicians only listen to business if they have financial or electoral power."

This may sound disingenuous, since few companies have Clourished without greasing paims in Ankara. Yet the inability to communicate the new business agenda to politiclans is worrying.

Business demands for sound

economic policy or action on implementing economic and regulatory reforms demanded hy the EU find little echo in parliament Mr Eczacibasi says "piracy is

a big problem. If you want to run a plant at world standards, there are costs associated with staff, lahs, overheads. If you have to compete with kitchen operations it makes your position very difficult." Formerly cautious business

leaders make no secret of their contempt for Mrs Ciller's increasingly populist govern-

ernment's incompetence, corruption, indecision and antihusiness rhetoric are no longer unusual. Business leaders have already warned they will not submit to more swingeing emergeocy taxes.

Recently Mr Sakip Sabanci, who heads the Sahanci group, one of Turkey's biggest conglomerates, bitterly denounced the "plunderers of Ankara" in a speech to a husiness associa-

He then had the audacity to summon Mrs Ciller to the group's June meeting: "Ciller has to come and listen to us." If she does appear, she may witness yet more flexing of the increasingly powerful muscles of big business.



Tofas joint venture with the

Koc group, says he is investing

\$800m in 1994-99 in new manu-

year, the Turkish car market

AUTOMOBILE INDUSTRY

Foreign cash is pouring in

hattered as Turkey's should be attracting a wave of foreign investment. Last year. sales dropped 47 per cent. The industry is about to lose its 28 per cent import protection. Sales are not expected to exceed 500,000 units a year

Yet Hyundai, Mazda and Honda are all looking for production sites in Turkey. Toyota has already arrived. It began producing 20,000 cars a year at a oew plant near Istanbul late

Renault and Fiat, which set up in Turkey as highly pro-tected joint ventures 30 years ago, are investing heavily even though profits have slumped and their factories are working on short time.

There are several reasons for the investment rush. First, Turkey is a low-cost base with duty-free access to western Europe. Second, the domestic market is very immature.

Above all, the prospect of customs union with the European Union in 1996 has shaken local companies into action. Renault and Fiat trying to shake off a reputation for making expensive, badly-made and

obsolete cars for a captive mar- models in its Turkish plants is ket. Still, the received wisdom is that customs union will hit them hard as they face full international competition. Mr Pierre Poupel, general director of OYAK-Renault.

thinks the threat of customs union is exag-He Car production gerated. argues that Thousand units European 400 -- . . -imports' price

and quality advantages will he offset hy higher local taxes. He concedes that "competition will be

tougher. The key issues will be marketing issues. rules of the game will come closer to what

is going on in Europe. Demand will move to what we know in Europe." Renault has invested \$180m

productivity on its newest

1989 90 91 82 93 94

300 -----

lower than other countries with similar income levels since about half Turkey's econin the last two years in upgrad-ing production and developing omy goes unregistered. Assuming continued population growth of about 2 per cent a new products. Renault claims

should double to 500,000-650,000 units a year by 2000. similar to factories in France However, demand is sensiand Spain. Mr Jan Nahum, general manager of Fiat's tive to upsets in real income,

facturing systems and models. omy is not sound, automotive companies cannot be sound". Productivity Car companies also want the government to lower its very hy a third since high car taxes to European lev-1992. Tofas has els of 15-17 per cent. Currently become part of about 45 per cent of car retail Fiat's interna-

interest rates and consumer confidence. Mr Nahum says

"as long as the Turkish econ-

prices are made up of taxes.

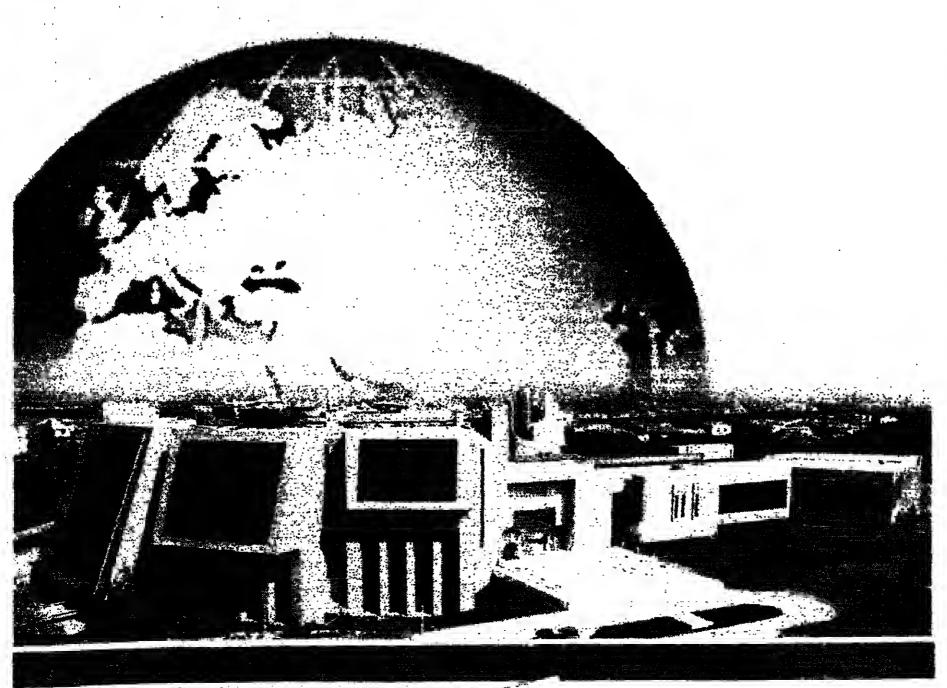
The arrival of the Japanese will revolutionise the industry. tional network: all Fiat Tempras sold in Renault and Tofas are already Europe are complaining that Toyota is made in Turbuying market share with Turkey itself, unfair price cutting.

Naturally, Toyota, in alliance though, is the great prize. with the Sabanci group, denies it is playing dirty - it is just Turkey has only 50 cars per playing hard. And unlike Fiat and Renault, Toyota's access to 1.000 people, EU markets will be limited by Brussels' "consensus" with one-tenth of Europe's ratio. Japan restricting car imports. Furthermore. this is much

Still, Messrs Poupel and Nahum may be right about one thing: there is not room for eight carmakers in a market as small as Turkey's. The ques-tion is, who will survive?

John Barham

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The fan mail is rather thin

Yaman Törüner, Turkey's central bank governor, is a man the financial industry loves to hate, writes John Bar-

Global Finance magazine chose him as the world's worst central banker last year for his role in the 1994 currency col-

lapse.
Mrs Ciller appointed Mr Törüner, a stolid 46-year-old career bureaucrat and former stock exchange chairman, in February 1994 as the deepest financial crisis in Turkey's recent history gathered pace.

But he insists the central hank's enhanced powers and greater independence now make him a guarantor of sta-bility and Turkey's number one inflation fighter. Only the central bank can print money, a new privilege recently wrested from the government. Furthermore, he cannot he removed until he has served his five year term.

So far, few dispute his determination to keep a firm hand on the printing press. However, if conditions deteriorate, his tight money policies will surely lead to confrontation with Mrs Ciller, known for her insistence on low interest

He says: "I am 100 per cent sure that we will have foreign exchange and monetary stability. I can't promise interest rate stability. That depends on the treasury." Interest rates are already at a nominal 104 per cent - about 20 per cent in real terms - and Mr Toruner says they could easily rise further still unless the government gets serious about con-trolling its budget deficit. He says interest rates are simply not his problem; they are determined by the supply and demand for money. "And who is the borrower?" he asks. "It is the treasury."

He has three targets: maintaining a stable exchange rate and maintaining a stable money supply. He will only allow the battered Turkish lira (currently worth about 44,000 to the dollar) to depreciate in

Few dispute Törüner's determination to keep money supply under control and he cannot be removed until the end of his five-year term

line with inflation. Money supply will only expand to meet international Monetary Fund targets.

His main objective is lowering inflation. He is aiming to reduce it to 40 per cent hy the end of the year. This will not be easy - last year's consumer inflation was 126 per cent and prices between have already risen 25 per cent in the first four months of this year.

Mr Törüner says unwaver-ingly "we will keep the monetary aggregates to their targeted levels to keep to the 40 per cent target."

Yet financial markets in 1stanbul, which bave little but contempt for the hureaucrats of Ankara, expect inflation will be 75-85 per cent. If they are right. Mr Törüner's rigid adherence to targets would be almost suicidal. The lira would become hugely overvalued and interest rates would be pushed up to Latin American levels, killing off the incipient recov-

Mr Toruner shrugs his shoulders. He insists he will pursue his targets come what may.

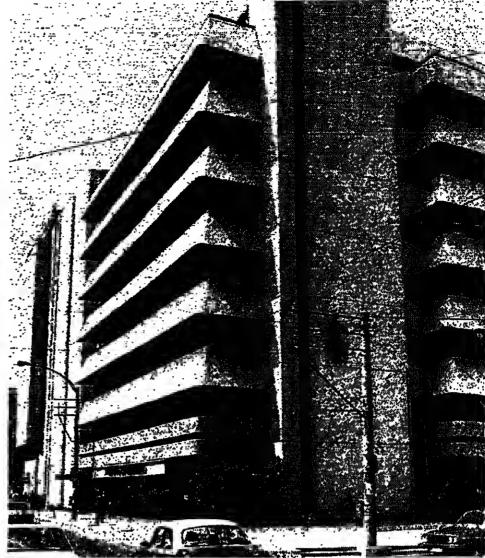
More to the point, he points out that he has the firepower to defend the lira: "central bank reserves have tripled in a year. We have enough reserves to keep stability." Central bank reserves hit a record \$12.81bn early in May, although they have dipped a little since then.

However, absence of structural reform or government spending controls indicates there is more instability huilding up in the system than Mr Toruner can control

There are more than a few cassandras predicting a serious crunch in the autumn. Mr Törüner says coolly: "I don't think that will happen. In this country everyone expects a large or small crisis every month but nothing has happened for 14 months."

The biggest risk is that he would cave in to political pressure for an easing of policy if Mrs Ciller calls early elections in the autumn.

He denies he is under government pressure to be less strict - "Mrs Ciller has never telephoned me [asking for relaxation]. She is the prime minister, not the man at the central bank. We don't have any problems about this".



Bank buildings in burnit: Yamen Törüner, the central benk governor, hopes to maintain a stable excha



eart speculators use mobile phones to contact the floor of the stock exchange, istanbul is now Europe's larger second-tier bourses - average daily trading hit a record of \$563m in April

Istanbul's youthful stock exchange is expanding rapidly

Free-wheeling trade zone

istanbul's stock market is only 10 years old and still very much an emerging market, with all the volatility and sharp practices this implies. But it does not lack ambition.

on Törüner's main aim is to reduce inflation to 40 per cent by the

end of this year, but prices rose by 25 per cent in the first four months

of 1995. Below: Istanbul's crowded central shopping area

The exchange's authorities are attempting to build Istanbul into a regional financial capital by developing some innovative new markets.

For instance, the exchange is setting up an international stock market, with a tax free, offshore status, where trades will be executed in dollars. It is aimed at attracting firms from the Middle East, the former Soviet Union and Eastern European countries.

Istanbul offers less stringent listing requirements than established markets. It also offer companies and traders greater liquidity than in their home markets. istanbul's nearest regional rivals are in Tel Aviv, Athens and Johannes-

hurg.
The stock exchange is also

establishing a wholesale mar-ket, where larger block trades can be executed without disrupting the often very narrow main market. Again, this is intended to strengthen istanhul's attractiveness to leading players, particularly fund managers and investment banks.

In May, the exchange moved out of its cramped buildings on a quayside in central Istanbul and into a spacious new building, renovated at a cost of As well as providing ameni-

ties such as an art gallery and auditorium, the exchange has increased capacity considerably, which traders hope will allow turnover to continue increasing. Dealers work from terminals in the building, and the new premises have 750 terminals compared with 492 in the old building.

Istanbul is now one of Europe's larger second-tier bourses. Average daily trading

slowed down. Market capitalisation now stands at \$29.93bn, 38 per cent more than at the end of last year. This performance makes Ist-

anbul an important market in its own right to emerging market players. "Nobody could have predicted that the market would increase 75 per cent this fifth in May, but nobody can say where it will go from here. This is one unpredictable beast," said a US equity analyst tracking the Turkish mar-

Analysts give any number of reasons for this year's growth spurt. They include the European Union's preliminary approval in March to customs union with Turkey and the army's incursion into northern Iraq - seen as a boost for Mrs Ciller's popularity. The treasury's success in stretching the maturity of its bonds to one hit a record \$563m in April, year from three months was Composite Index (DOBs)

another positive signal. Probably most important was that investors over-reacted last year when they drove prices down by half, leaving plenty of room for this year's

upward correction Traders may he unsure where the market is now heading, mainly because the political signals from Ankara are confusing. Still, there is still plenty of volatility to tempt investors with a penchant for speculation. For instance, shares in three cement companies - Konya Çimento, Çimsa and Akcimento - gained as much as 70 per cent in a few

days in May. Some typically Turkish factors hoosted these stocks: rumours of early elections helped construction stocks, because politicians habitually try to bribe voters by starting government-funded construction projects in their constitu-encies ahead of the polls.

Stock splits also influence prices positively, because they improve the very tight liquidity of these three companies shares. Moreover, splits are popular with retail players, many of whom believe they are getting "free" shares.

Professionals say It is still not too difficult to find value in the market. Recommended stocks at the top end of the price range include Sse Cam, a glassmaker with a prospective 1995 price/earnings multiple of 21, or Aygaz the liquefied petroleum gas company, with a 1995 p/e of 12.8.

Bargain stocks include Demirbank, a strong medium-sized wholesale bank, trading on a 1995 prospective p/e of just 2.9, and Tofas, the car maker, with a p/e of 4.1 (its shares were trading at a 50 per cent discount to the market in

However, the market's nervy mood reflects the uncertainty pervading the wider economy. The absence of structural reform indicates further economic problems ahead. The market remains particularly wary of upsets in the bond market

The government's difficulties in pushing reform legislation through parliament could jeopardise customs union, expectations of which have helped the market this year. Now analysts are beginning to re-examine stocks most threatened by customs union such as cars or white goods as a possible play on rejection or postponement of the accord.

John Barham

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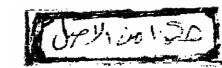
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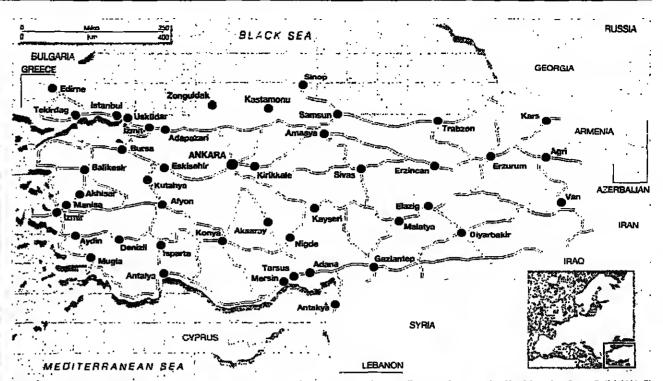
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TURKEY 7



BUSINESS VISITORS' GUIDE



It pays to plan ahead

Once business is over, there is no excuse for not having a great time in Istanbul, writes **Hugh Pope**

he first-time visitor to Istanbul may flinch on the drive in from Istanbul airport. The highway is clogged with anarchic traffic and surrounded by a grey city apparently drowning in a polluted sea of half-built concrete tenements.

Settled in one of many fine new hotels, the visitor will start to feel better, discovering the minaret-studded skyline along the Bosphorus waterway, the warm hospitality and the many luxuries of life in this energetic city of 7.7m people.

However, even veterans must plan appointments carefully in the husiness districts scattered in a patchwork pattern across the

Remember too that taxis may be cheap, plentiful and, honest to a fault, but their drivers rarely speak much English and may be as new to the city as oneself. So buy a road map and allow at least half an hour's transit between

Many other things can be quickly organised. Changing foreign curreccy is easy at most times of the day and night, and credit cards can be used to withdraw mooey from automatic cash dispensers at banks. Bot, as in making arrangements for anything in Turkey, assume oothing, plan well ahead, spell ont everything - and then check again that it has been

Ooce husiness is over, there is oo excuse for not having a great time. Europe's best-kept secrets must be the night-life of Istanbul. A baby boom of Young Turks has hit spending age and they are determined to stay up until dawn to prove it, clogging up coast roads along the Bosphorus into the small hours.

To keep track of the bars, clobs and exteries that open and close like fire-flies all over town, buy the excellent English-language hi-monthly Istanbul Guide.

still be safest to arrange in the leading hotels, but there are more adventurous

alternatives. For the best fish. take a the launch from Rumelihisar across the Bosphorus to Korfez, with its stunning view of ships passing down the seaway. The more moderately-priced Deniz in Kirecburno also serves a fabulous sea bass baked in salt that comes flaming to your

A good trip in fine weather is to take a Bosphorus ferry from the south eod of the Galata Bridge oo the Golden Horn at 10.30 and 13.30 each day, the earlier boat allowing a stop long enough for a languid seaside lunch far op the Bospborus at Anadolukavagi, Smaller fish restaurants cluster by the sea in Ortakoy, a studeot's

o Sunday, when the superh Grand Bazaar is closed, one can visit the flea market. Or ooe can watch Turkey's wealthy set mingle at the fine Home Store case in the grand new mall at Akmerkez in Etiler, opeo daily 10-10 and Turkey's best shopping

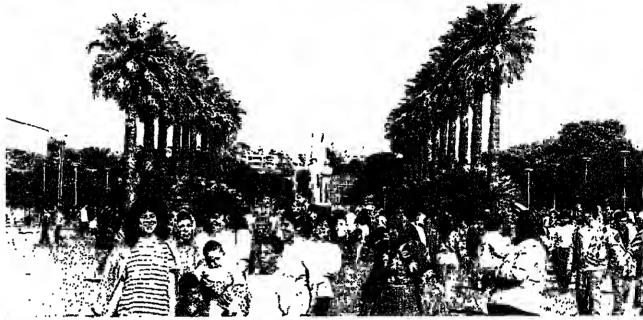
everywhere. My favourite is Hacidan, a ooe-time society joint half-underground on a

busy corner in Levent. It is advisable to phooe them for directions. Hacidan is the klod of restaurant known as "ocakbasi" or "at the head of the hearth", since, to the fashion of Japanese susbi bars, the diner can cozy up to a long hrazier of glowing charcoal.

Many big hotels offer classical Turkish restaurants. of which the grandest is at the Ciragan Palace-Kempinski, set in a marble palace by the water. Also good is the Asithane in the Kariye Hotel in Edirnekapi, a cooveoient stop after seeing the city's best Byzantine mosaics in the nearby Kariye Museum. The unusual Daruzziyafeh

restaurant, near the Suleymaniyeh mosque, serves classical Ottoman food, right down to serving sherbets instead of alcohol, Pandelli's. above the oorth gate in the Spice Bazaar in Eminonu, has a medieval ambience of thick walls and Izoik tiles. And on Istiklal Street oear Taksim, Haci Baba has a pleasant balcony at the back and offers fine and reasonably priced Turkish fare.

prefer to spend their summer evenings in open-air restaurants further op the



Bosphorus, Favourite veooes with fashiooable discotheques include the brash Pasha Beach in Ortakoy and the lovely SamdanSa, where tables are set between trees on a wooded hill near Yenikov.

Club 29 in Ulus bas a spectacular view over a beod in the Bosphorus strait, while the Osteria da Mario in Etiler has one of the more delicious Italian menus and coziest

atmospheres in Istanbul. In any case, remember to go While Istanbul is geoerally safer than most big cities, avoid wandering in the area around the consulates in Taksim to Beyoglu. Muggers are rife, the ladies of the night teod to be men and many a fun-seeking tourist has been

presented with a \$1,000 hill

an innoceot beer in a

dark-looking dive.

and a knife in his throat after

easy on the hors d'oeuvres they are ofteo only the beginning of a loog evening. If oecessary, ask the price of the fish before you order it. Eat your favourite morsels

first, because hyper-active Turkish waiters have a fetish for removing half-finished plates. They usually expect a tip of 10 per cent, whether or not it seems to have been

incloded in the hill. Above all, sit back and enjoy the fuss. The Turks take their food seriously and one is rarely disappointed. Credit cards, dollars and Deutsche Marks are widely accepted. and wherever you go, you'll eod np paying less than half what you would lo Europe.

For key facts on Turkey: see back page of this survey

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viors sell fish beside the Bosoborus waterway with the minaret-studded skyline of Istanbul in the background. For the best

Currency/ exchange rate

Currency: Turkish lira (TL), Exchange rate at June 5, 1995; DM1=TL30.636.6: Y100=51,200.5

The government devalues the lira more or less in line with inflation. Import of foreign cur-

and export of Turkish currency is limited to the equivalent of Exchange slips for conversion

ish lira should be kept, to be shown when reconverting lira and as proof of legally exchanged currency when tak ing souvenirs out of Turkey.

Main cities

Population at 1990 census Ankara (capital) 2,559,471

Istanbul	7.756.338
Izmir	
Adana	
Bursa	1,016,760
Gaziantep	730,435
Konya	584,785
Mersin	422,357
Kayseri	421,362
Eskişerhir	413,082

Population and Area

Area (sq miles) . Population (official estimates



61,180,000

Business hours Government offices: 0830-1230 and 1330-1730, Monday to Fri-

ss offices: 0900-1230 and 1830-1800, Monday to Friday. Banks: 0830-1200 and 1330-1700, Monday to Friday.



Shops: 0900-1300 and 1400-1900. Monday to Saturday.

One large shopping centre, coast road to the Istanbul airport, is open until 2200 every day. Many flower shops stay open later than 1900. Pharmacies display the location of one

Languages

Turkish, 90 per cent; Kurdish, 7 per cent; other (Arabic) 3 per

cent. Most business people speak English, German or

Religion/Ethnic mix

Religions: Moslem 99 per cent, with the following minorities: Christian Orthodox, Armenian Apostolic, Roman Catholic, Protestant and Judaism. Ethnic make-np: Mainly ethnic Turkish, with a large Kurdish minority, and small numbers of Armenians, Greeks and

Government organisations

Prime Minister's office: Başbakanlik, Ankara. Tel (312) 230

Ministry of Communications: 91 Sok No 5, Emek, Ankara, Tel (312) 212 6730. Ministry of Foreign Affairs: Dişişleri Bakanlığı, Yeni Hiz-met Binası, 06520 Balgat, Ankara. Tel (312) 287 2555.

Ministry of Finance and Customs: Maliye ve Gümrük Bak-Tel (312) 419 1200. State Planning Organisation: Izmir: January 46°F (8°C); July

Tourism Ministry: Ismet Inonti Bul, 5 Balgat, Ankara. Tel:

(312) 212 8300. Central Bank of Turkey: Istiklal Cad 10, Ulus, Ankara. Tel (312) 312 6052.

■ Climate

Tel (312) 212 8800.

(312) 417 6440.

417 2790.

Coastal regions have a Mediterranean climate, with mild. moist winters and hot, dry summers. The interior plateau has low and irregular rainfall. cold and snowy winters and hot, almost rainless summers. Ankara: January 32.5°F (0.3° C): July 73°F (23°C). Annual rainfall 14.7 inches (367mm). Istanbul: January 41°F (5°C);

fall 28.9 inches (723mm).

Necatibey Cad 108 Ankara. Tel

Turkish International Cooper-

ation Agency: Kizilirmak Cad

31. Kocatepe, Ankara. Tel (312)

Undersecretariat for Treasury

and Foreign Trade: Eskişehir

Yolu inonu Bul Emek, Ankara.

Ministry of Trade and Indus-

try: Sanayi ve Ticaret Bak-

anlığı, Tandoğan, Ankara, Tel

81°F (27°°C). Annual rainfall 28

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requirements

Visas required by all except nationals of some Euro pean countries and a few others. Citizens of the UK and Ireland require visas, available only at the port of entry for £5.

Public holidays

January 1 (New Year's Day), April 23 (National Sovereignt and Children's Day), May 19 (Commemoration of Atatürk and Youth and Sports Day) three days for Romadan and four days for Kurban depending on Moslem calendar, August 30 (Victory Day), October 28 (partial) and October 29 (Republic

Sources: Europa World Yearbook, 1994; EIU country profile, 1994: KCDW/Kaleidoscope; Walden Country Reports, January 1995: World Hotel Direct Statesman's Year Book 1994-95:



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Page 19

Hard choices for a nation at the door of Europe

Continued from page 1

rifts in a divided society. Crammed into slums lacking basic amenities, rural migrants must assimilate, unaided, into urban life. The stress of urbanisatioo is strengthening the appeal of Refah, the militant Islamist party, partly because it is almost the only provider of a social safety net for these

Equally, continued migration - one third of the population lives in the rural areas - may give Turkish society a further impetus towards a modern, western-oriented urban culture. Rapid growth of private TV channels and radio stations is accelerating this trend, churning out pop music, video clips, US sitcoms and commer-

cials for consumer goods. Individuals, whether professors or street vendors, are feeling freer to speak their minds. Human rights violations, corruption and the Kurdish issue are discussed openly now, albeit within the restrictions of security laws. Business leaders feel less inhibition in lashing out against corruption or populist politicians. where once they feared losing a valued privilege or being excluded from a government contract. Inevitably, Turkey is becoming a less equal society, Although nobody can be sure -

there are no reliable statistics

- the gap between rich and poor appears to be widening rapidly. While Turks are famous for their stoicism, social cohesion is threatened. Half the population, which is

growing at just under 2 per cent a year, is under 29. Spending on education is one-quarter less than the OECD average. High unemployment is worsening further because job creation lags populatioo growth

Individuals, whether they be professors or street vendors, are feeling freer to speak their minds

by a wide margin.

Turkey's big city slums, especially in Istanbul, are simmering with anger and frustration. It does not take much for these communities to explode into violeoce. In March, a gun attack by unidentified assailants sparked off three days of rioting in an Istanbul skum of minority Shia Moslems, in

which at least 28 people died. For the middle classes, and increasingly from Europe's perspective, the spectre of Islamic fundamentalism is perhaps the most alarming development. Refah is oow ooe of the most popular parties, thanks more to protest votes than support

for an Islamic state. Many fear that a Refah government, backed by sympathis ers who are systematically would dismantle the secular state and cut Turkey's links with the west. Nightmare scenarios of "another Algeria" or

"another Iran" proliferate. These concerns may be exag gerated. To prosper electorally Refah must moderate its radi calism to occupy the middle ground. However, the danger is that public opinion may itself become more radical if the gov ernment fails to deliver growth, alleviating social deprivation by allowing investmant and employment to

A surfeit of inadequate lead ers is perhaps Turkey's greatest handicap. Critics claim that Mrs Ciller is an insecure, indecisive politician who lacks the vision and determination of the late President Turgut Ozal, who for all his faults, rapidly modernised Turkey in the

Turkey must soon choose between a high road of growth and stability by developing its relationship with Europe and the west, or whether to keep struggling along the low road it has chosen to follow in recent years of instability and hardship, with all the attendant political risks. Mrs Ciller's record as prime minister leaves little room for opti-

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